PHD

The reform and privatisation of public enterprises in developing countries : The case of the Sudan

Ali, Abdalla Abdel Rahman

Award date:
1992

Awarding institution:
University of Bath

The Reform and Privatisation of Public Enterprises in Developing Countries: The Case of the Sudan.

Submitted By:

Abdalla Abdel Rahman Ali,

B.Sc (Hons), M.Soc.Sc (Accounting)

For the Degree of Ph.D.

School of Management

University of Bath.

May, 1992.

Dedicated to

my grandmother,

my parents,

and the small family:

(Amal, Deena, Azza, and Muhannnad).

Table of Contents

Chapter Nine: Organisation and Management of PEs

Part Three: PE Reform and Privatisation

Chapter Ten: The Reform Process(I)

Chapter Eleven: The Reform Process II

Acknowledgements

This thesis owes its existence to the support and cooperation of many people, without whose help, the research would not have been completed. I am extremely grateful to all those who gave me their advice and time, and in particular those mentioned below.

To start with, I should like to thank my supervisor, D.J. Harris, senior lecturer at the University of Bath, for his unlimited support and valuable comments. Indeed, his continuous help, guidance and encouragement over the years are greatly appreciated.

I should like to express my gratitude for the help that I have had from the Sudanese officials in the various ministries, government departments and the public enterprises studied. In addition, I am grateful for the open and cooperative spirit with which I was received by the World Bank staff both in Khartoum and Washington. I should also like to thank Mrs. Mansoor for her super efficient typing.

Last but not least, I should like to gratefully acknowledge the financial assistance that I received from the Overseas Development Administration, and the Technical Co-operation Training of the British Council.

Abstract

During the 1980s, the pendulum swung back from the socialism doctrinaire that dominated the post-war period, and the one that emphasised public ownership of the productive and services sectors. During the last decade new values emerged questioning the role of the state in the economic activities, and the development strategies of the 1960s and 1970s. It was claimed that, the pursuit of equality had done more harm than good, that central planning had been inefficient in allocating resources, and that public ownership had failed to accelerate economic growth. As a result, the pressures mounted to shift to a market economy, and to rely on private initiatives to spearhead the development process. Indeed, an increasing number of governments around the globe, including the communist countries, have announced their intentions to rolling back the frontiers of the state. The move was partly attributed to the poor performance of public enterprises, and partly to the political changes that took place during the latest decade.

In this thesis, we investigated the rationale for, and the scope of privatisation in developing countries, with special reference to the Sudan. The conclusion is that, the actual implementation of privatisation proved to be exceedingly difficult in developing countries. Moreover, research failed to establish a clear cut economic case for the privatisation policy. As a result, there is no firm evidence on either how to implement privatisation, or its economic benefits. Indeed, the term itself has never been clearly defined. In its broader form, privatisation refers to total retreat of the state from economic activities traditionally reserved to public entities. In its narrow form, privatisation refers to change of ownership from public to private through sale (in whole or part), change of management and control through leasing or a management contract, liquidation, or contracting-out. In this thesis, the main emphasis will be on the broader definition of the policy, solely because the narrow definition (denationalisation) appears to be of limited relevance to the vast majority of developing countries. The fact is that, the implementation of denationalisation in developing countries has faced serious political, economic, and technical constraints, and its potential

benefits are not at all certain. However, it must be stressed that, the transition to a market economy has also faced formidable hurdles and proved to be extremely painful.

The thesis will consist of four main parts. The first part will outline the basic motives for establishing public enterprises in the post-war period, their size, performance and problems, as well as the drive for privatisation in developing countries (chapter 1 to 4). Parts two and three will report the findings of the empirical investigation in the Sudan. Part two will outline and discuss the state of the art in the Sudan, viz: the privatisation experience, and the structure and performance of public enterprises (chapters 5 to 9). Part three will examine the various reform efforts to improve the performance of public enterprises, and the relevance of privatisation to the Sudan. The fourth part will bring this research to a conclusion, viz: the main findings, the possible alternative policy options, and the implications for policy makers in other developing countries (chapter 14).

Abbreviations

BoS	Bank of Sudan
BG	British Gas
BT	British Telecom
CBPE	Central Bureau for Public Enterprises
CPO	Central Pricing Office
DCs	Developing Countries
DFSC	Duty Free Shop Corporation
GDP	Gross Domestic Product
GRIP	Guaranteed Recovery of Investment Principal
HCP	High Commission for Pricing
IAS	Individual Account System
ICP	Industrial Costing and Pricing
IDA	International Development Association
IDC	Industrial Development Corporation
IFC	International Finance Corporation
IMF	International Monetary Fund
IPC	Industrial Production Corporation
JAS	Joint Account System
MCCS	Ministry of Commerce, Cooperation and Supply
MFEP	Ministry of Finance and Economic Planning
MIGA	Multilateral Investment Guarantee Agency
OGL	Open General License
PEs	Public Enterprises
PCST	Public Corporation for Sugar Trading
SPIC	Sugar Project Implementation Cell
SNWA	Sudanese Nationals Working Abroad
TFP	Total Factor Productivity
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development

Introduction and Summary

Introduction

Between the late 1940s and 1970s, a universal consensus existed regarding the role of the state in economic activities. Both socialist and capitalist governments, in both developed and developing countries engaged in creating a wide range of enterprises to provide goods and services at reasonable prices. The prevailing ideology in most developing countries (hereafter DCs) was that, political independence must be supported by economic independence, which meant full state ownership of the productive capacity, and expulsion of foreign firms. It was believed that, due to the widespread market failures, central planning was more efficient in allocating resources than the market forces. Thus, governments around the globe established a considerable number of public enterprises (hereafter PEs) in the post-war period, on the assumption that public ownership not only contributes to rapid economic growth, but also to socio-political stability. According to public corporation theory, as developed in the UK, this required the creation of enterprises that were accountable to the government, while their operating decisions were to be left to their management.

Ideology apart, state ownership was further supported by the Keynesian demand management theory, which stressed the role of public spending in stimulating economic growth, creating jobs, and raising the standards of living. Indeed the theory seem to have worked satisfactorily in the post-war period, as inflation remained under control and so did unemployment. Therefore, during this period (late 1940s and 1970s), the role of the state in economic activities was hardly ever challenged.

By the mid 1970s, however, that universal consensus began to disappear, as both inflation and employment soared. Consequently,governments around the globe started to reassess their economic role. PEs, it was claimed, were inefficient way of doing business, simply because they had no incentives to control costs, or to provide quality goods demanded by consumers. Moreover, with their unlimited access to public funds, PEs could not go out of business. PE managers, the argument went, had no incentives to be efficient, to respond to market forces, or to discipline trade unions.

To these economic arguments, an ideological shift took place during the last decade adding another contributory factor against PEs, which **Hemming and Mansoor (1988)** attribute to the election of governments in industrial countries (e.g. the UK and USA), committed to "rolling back the frontiers of the state." Their arguments were based on an implicit assumption of the superiority of private firms, and a strong belief in the efficiency of free markets. Moreover, it was argued that, state ownership undermined consumer choice, resulted in higher prices and lower productivity, and that high taxation to finance public spending reduced incentives to invest, work and maximise profits. Therefore, it was argued that, the role of the state should be restricted to ensuring that the right conditions for doing business prevailed. The **British Chancellor of the Exchequer** summarised these views as follows:

> ***"Strong sustainable growth is achieved not through any artificial stimulus, but by allowing market forces to work again and by restoring enterprise culture, by removing unnecessary restrictions and controls, and by rolling back the frontiers of the state, by removing all trade union laws, promoting all forms of capital ownership, and reducing taxation."***
>
> **(Budget speech, March 20,1989)**

Thus, the poor performance of PEs, it was argued, is a direct consequence of their ownership structure. Therefore, the only enduring remedy that emerged was to change ownership.

As for DCs, the current interest in "rolling back the frontiers of the state" is attributed to a number of economic factors. These include rapid inflation and unemployment rates, mounting external debts, stagnating exports, severe shortages of basic consumer goods, and that foreign loans started to slow down. At the domestic level, PEs were blamed for the economic difficulties experienced by almost all DCs during the 1980s. It was argued that, PEs are incurring persistent losses, mainly borrowers, both locally and abroad, and they did not give value for money. **John Nellis (1986)** highlighted the magnitude of PE losses in Africa: "Cumulative PE losses in Mali reached 6% of GDP by the end of 1970s; a 1980 study of eight Togolese PEs revealed that their losses alone equalled 4% of GDP (leading one to think that the losses as a percentage of GDP figures given in other countries might be severely underestimated); half of a sample of 39 industrial PEs in Madagascar ran substantial losses in the period 1981-83;and reports from the Sudan, Nigeria, Mauritania and Senegal reveal, at best, heavy losses ...". Similarly, **Shirley (1983)** showed the impact of a slight improvement in performance, "a 5 percent increase in SOE revenues plus a 5 percent drop in costs would generate resources amounting to: some 1.5 percent of GDP in Tanzania , enough to finance all its spending on health .. as much as 2.2 percent of GDP in Mali ... some 1.4 percent of GDP in Bolivia - 14 percent of tax revenues...".

Thus, a growing dissatisfaction with the performance of PEs, and sweeping political changes have led both socialist and capitalist governments around the globe to reassess the role of the state in the economy. And the Sudan is no exception.

During the last decade, the Sudan has experienced severe economic and financial difficulties. The prices of principal exports (cotton) sharply declined, the productive sector and infrastructure collapsed, external debts mounted, and the country lost its highly trained and experienced staff to competitors abroad. Part of the blame is attributed to political and natural causes, while others relate to the poor performance of PEs.

In its 35 year history since independence in 1956, the Sudan has enjoyed peace for only 11 years (1972-1983). Apart from its human cost, the civil war in the Southern part of the country has disturbed development. Indeed, development in other parts of the country has been seriously hindered, as the war absorbed the meagre resources available and engaged a great deal of the government attention and time. Moreover, the country has also been affected by external natural causes, including three years drought (1982-85), and flood and locust in 1988, which have had a detrimental impact on the agricultural output, the country's main exports.

Apart from these external factors, a large part of the blame for the poor economic performance was levelled at PEs. The Sudan, a former British colony, inherited a number of PEs at independence, and subsequently established a wide range of PEs during the 1960s and 1970s (see chapter 8). At present, there are some 200 PEs, covering all the irrigation, rail, telecommunications, electricity and air transport, and a significant portion of industry, trade, hotels, and road transport. PEs are responsible for about 45 percent of GDP, and 75 percent of exports.

However, the financial performance and productivity of PEs have been extremely poor, resulting in a significant budgetary burden and hardship to consumers. A number of factors contributed to this state of affairs, including lack of a clear public policy towards PEs, massive brain-drain to the Gulf states, severe shortages of foreign exchange to acquire spare parts and imported inputs, distorted pricing systems, inept management, poor financial management and reporting systems, and inadequate supply of public utilities (e.g. power). However, it must be stressed at this stage that, these factors equally affected private firms (see chapter 7).

Nevertheless, as public finances dwindled, and foreign capital flows came to an end following the 1982 debt crisis, the Ministry of Finance and Economic Planning (hereafter MFEP) became less patient with the budgetary burden of PEs. Moreover, the fact that almost all PEs were operating at very low levels of capacity, resulted in severe shortages of basic consumer goods causing great hardship. That is because, unlike the situation in industrial countries where consumers have access to imported goods, the severe shortages of foreign exchange has forced the authorities to curtail imports. Thus, the poor performance of PEs affected not only the Treasury, but also the public at large. As a result, the poor performance of PEs received the attention of the successive governments, as well as external creditors, notably the World Bank and the International Monetary Fund. Subsequently, various pieces of reform were devised to revitalise the PE sector. The result of these reform efforts, however, has not been encouraging, because implementation was flawed in many respects (see chapters 10 and 11). In effect, the poor financial performance, the low productivity, and the drain on the Treasury persisted. Also, the privatisation of some loss-making PEs has been contemplated, though without major progress (see chapter 6). Recently (mid 1990), the incoming military government decided to abandon the reform efforts, and instead proposed to privatise a wide range of PEs.

Thus, throughout the 1980s the issue of PEs has been a topical issue in the Sudan. In 1987/88, the researcher participated in a study for the World Bank on the accounting systems in the irrigated agricultural schemes. It was during this period that the idea of conducting a research work on the ills of PEs and the reform agenda matured.

Definition

For the purpose of this research, PEs are defined as those productive entities owned by the state, have a separate legal entity, and earn the bulk of their revenues from the sale of goods and services. Thus, in this sense, PEs have the following characteristics: engaged in producing goods and rendering services, owned by the state, and their product prices must bear some relationship to cost of production. In the Sudan, PEs refer to public corporations organised under the 1976 Public Corporations Act, and the private limited companies organised under the 1925 Companies Act.

Summary of Findings

Ideological considerations apart, the economic arguments in favour of privatisation were: to reduce the budgetary burden, to improve efficiency, to resolve the management and control problems of PEs, and to widen ownership. However, the research established that there was no clear cut economic case for the policy in DCs (chapter 3). In addition, although it was claimed that privatisation is spreading throughout the world, the emerging evidence indicates that "there was more rhetoric than action" **(Pfeffermann, 1988).** It is certainly true that governments worldwide, including the former communist countries, have announced ambitious privatisation plans. In practice, however, implementation was hampered by a combination of political, economic and technical constraints, resulting in a wide gap between plans and actual privatisation. The principal political constraints to privatisation have been the lack of political commitment, the role of foreigners and ethnic minorities and concerns about its distributional impact. The economic and technical impediments include the lack of capital, the weakness of the private sector and the lack of experts to plan, manage and implement a viable privatisation programme.

Moreover, we found that the business environment in the Sudan is distorted in many respects, and nothing has been done to create a supportive legal and economic environment. In particular, the Sudanese authorities rely heavily on administrative controls, basically to protect employment and consumers, though the administrative capacity of the state has been seriously undermined by the massive brain-drain and the disarray of the civil service. There are stringent controls over price and labour policies, trade and foreign exchange, very high taxation rates, under-valued exchange rate, inadequate supply of public services (power, roads, communication services), and unstable political and legal systems. Therefore, assuming that the Sudanese authorities managed to privatise part of their PEs, it is likely that the economic benefits would be limited, not least because there is no firm evidence to suggest that privatisation in itself would generate major economic benefits. For all these reasons, therefore, it could argued that, the scope and pace for privatisation in the Sudan would be limited and slow. As a result, internal PE reform would need to be emphasised, through clarifying objectives, creating a sound macroeconomic environment, strengthening management selection, appraisal, incentives, autonomy and accountability. Towards this end, a model will be provided to improve the performance of PEs in the interim (see chapter 14).

Structure of the Thesis

This thesis will be composed of four main parts. Part one starts by outlining the major reasons behind the establishment of PEs (chapter one). This will be followed by a review of the theory and practice of privatisation in DCs (chapters two - four). The primary purpose of this literature survey will be to familiarise ourselves with the salient features of the policy, viz: its objectives, mechanisms, obstacles and the emerging lessons before conducting the fieldwork. This is important, because as **Diesing (1973)** argues "a prospective fieldworker will acquaint himself with a variety of theories (the more the better) that may be applicable to his case."

Parts two and three will report the findings of the empirical investigation. Part two starts by outlining the research methodology (chapter 5), the state of the art in the Sudan (chapter 6), the cases (chapter 7), and then examines the structure, and performance of PEs in the Sudan (Chapters 8 and 9).

Part three will examine the various pieces of reform devised to improve the performance of PEs (chapters 10 and 11). Thereafter, the relevance of privatisation to the Sudan will be critically examined (chapters 13 and 14).

The final part brings this study to a conclusion. It will outline the state of the art in the Sudan and other DCs, the alternatives to privatisation, and the implications for policy makers in DCs (chapter 14).

Part One

Theory and Practice of Privatisation

in

Developing Countries

Chapter One

The Rationale, Size and Performance of PEs in Developing Countries

The structure of the world economy in the post-war was characterised by a prominent role of PEs in the productive and services sectors. The last decade, however, has witnessed significant changes to the policy of public ownership. As we shall see below, a growing dissatisfaction with the performance of PEs, the rise of the right in the West, and the collapse of socialism in the East, have led governments worldwide to reassess the role of the state in the economic activities. It is therefore convenient to start by examining the reasons behind the creation of PEs, their performance record, and their major problems.

The purpose of this introductory chapter, therefore, will be to give a brief account on the rationale, size, performance, and the main problems of PEs. The discussion will be devoted, in the main, to DCs, and particularly African countries as the Sudan with which this research is concerned, is part of that continent. However, it worth noting that DCs are by no means a homogeneous group. As **Short (1984)** points out, PE's share of Gross Domestic Product varies from one percent (Nepal) to 14% (Taiwan) in Asia, from 7% (Liberia) to 40% (Zambia) in Africa, and from 1% (Guatemala) to 38% (Guyana) in Latin America. These variations, therefore, highlight the various motives behind the creation of PEs, the nature of their problems and hence the difficulty of approaching DCs as a homogeneous group. Similarly, **Heald (1990)** states that "Thailand is dramatically different from Pakistan and the newly industrialising countries of South East Asia bear little relationship to Sub-Saharan Africa". Indeed, even within Africa, major differences exist.

1.1 The Rationale For PEs

The origins of PEs in most DCs is attributed in part to the colonial administration, where many DCs inherited a large number of PEs at the time of independence. For instance, **Bauer and Yamey (1984)** argue that "Nigeria inherited powerful, centralised instruments such as export monopolies; imports controls and local development corporations from the British Colonial administration". Indeed, a similar legacy was left in Ghana, India, Pakistan, the Sudan and Uganda **(Aylen, 1987)**. However, in addition to this legacy, state domination was accepted in the post-independence, since this was the formula to which the new national governments were acquainted. As **Nellis (1986)** argues "the point is that most of the national elites who came to power in the 1960s were thoroughly accustomed to legally strong, hierarchically centralised and economically intrusive governing systems". Therefore, national governments subsequently established a wide range of PEs for both ideological and pragmatic reasons.

The ideological reasons stemmed largely from the fact that, in many DCs, the leaders of the "Independence Movements" were more or less socialist oriented or at least impressed by the socialist model of development (e.g. Nasir of Egypt; Singhor of Senegal; Nyreeri of Tanzania; and Nehru of India). As a result, many newly independent states adopted one form or another of socialism, on the belief that this was the only way to accelerate economic development and political stability **(Nellis, 1986; Hemming and Mansoor, 1988)**.In addition, ideological considerations often led national governments to take a hostile attitude towards multinational firms on political grounds (recolonialisation). Thus, public ownership was deemed essential to create jobs, and ensure equal distribution of wealth and balanced regional development. **Hemming and Mansoor (1988)** argue that "public ownership and control of the so-called 'commanding heights' of the economy was given special emphasis within this context in both industrial and developing countries". These ideological considerations were more or less evident in countries that have adopted a socialist system at one stage. Examples from Africa include Algeria, Angola, Egypt, Ethiopia, Ghana, Sudan, Senegal, Somalia, Tanzania and Zimbabwi. Indeed, **Nellis, (1986)** asserts that "at least 16 African countries, either at present or at some point in the past, have claimed to be socialist or using basically socialist approaches to development".

However, this is not to suggest that ideological considerations were the only motives behind state ownership in the post-independence period. Indeed, in the vast majority of cases, PEs have grown regardless of the political system, or the ideology of the party in power. In the UK, for example, both the Conservative and Labour governments have established a substantial number of PEs in the post-war period **(Kay, 1987)**. Similarly, the highly conservative Middle East countries have nationalised the oil corporations. The pragmatic considerations were numerous. In most DCs, the lack of capital and management expertise was the rule. Therefore, DCs had no choice but to rely on public investment. More importantly, the social objectives behind the creation of PEs normally do not attract private investors. Other pragmatic factors included the generation of investible surplus, establishment of import substitutes, and in some cases governments had acquired private firms that failed, so as to preserve jobs or provide essential services (e.g. transport).

This brief account does not exhaust the varied motives behind public ownership of the productive and services sectors in DCs. Nevertheless, it is evident that for both ideological and pragmatic reasons, state intervention was the norm throughout the world. **Hemming and Mansoor (1988)** argue that "while market failures provide strong justification for state intervention, such intervention need not take the form of public ownership. Market failures could be corrected through regulation, taxes or subsidies". However, public ownership was the accepted form of intervention for a number of reasons. Most important of these was the fact that taxes and subsidies were thought to be costly, and regulation has its own practical difficulties. First, regulation essentially depends on the legal system, and by then the newly independent states had no established legal system, nor sufficient qualified judges and lawyers. Second, regulation required a certain cadre of technical experts, which many DCs did not have by then. Third, the lack of adequate, timely information caused by lack of standardised accounting systems, rendered regulation at best difficult.

1.2 Size of PEs

Whatever the motives were, between the late 1940s and 1970s, PEs were the norm worldwide, regardless of the stage of economic development or the political system. Nevertheless, the exact number of PEs in DCs, and Africa in particular, is not known with any degree of accuracy. The reasons are two-fold. First, there is no standardised and precise definition of PEs. As **Shirley (1983)** points out, the telephone system in Jamaica is a public corporation, while it is a government department in both Mauritius and Bangladesh. Second, information on the number of PEs in DCs is sktechy and unreliable. For example, in relation to the size of PEs in Africa, **Nellis (1986)** argues that "The greatest difficulty when dealing with African PEs is obtaining accurate, aggregate facts and figures. Different sources give different figures, even for such essential items as total number of PEs in a country". Indeed, even in middle-income countries, such problems exist. For example, **Trebat (1983)** states that "In Brazil, we still have no precise data on the total number of public corporations".

Nevertheless, the available evidence indicates that PEs have grown dramatically in the post-war period. In relation to Africa, **Nellis (1986)** estimates that there are some 3000 PEs in 30 countries. However, the author claims that "The actual total must be considerably higher, since several of the countries for which no summary figures are available, are those with heavily interventionist economic policies - Angola, Burkino Faso, Guinea Bissau, Mozambique and Zimbabwe, for example". As we saw earlier, there is little correlation across countries in terms of PE's contribution to GDP. Moreover, as the following table reveals, the extent of public ownership in industry in the early 1980s, varied considerably across countries.

Table 1.1

Public Ownership of Selected Industrial Subsectors (%).

Subsector / Country	Telecomm	Electricity	Post	Gas	Coal	Rail	Air-line	Steel	Motor Vehicle
Brazil	100	100	100	100	100	100	25	75	-
Britain	100[a/]	100[a/]	100	100[a/]	100	100	75[a/]	75	50
Canada	25	100	100	-	-	75	75	-	-
France	100	100	100	100	100	100	75	75	50
Ghana	100	100	100	100	50	100	100	N.A.	N.A.
India	100	100	100	100	100	100	100	75	-
Italy	100	75	100	100	N.A.	100	100	75	25
Japan	100[a/]	-	100[a/]	-	100	75	75	-	-
Mexico	100	100	100	100	100	100	50	75	25
S. Korea	100	75	100	-	100	100	-	75	-
Tunisia	100	100	100	100	100	100	100	N.A.	N.A.
Zambia	100	100	100	100	100	100	100	N.A.	N.A.

a/: Before privatisation
N.A.: Not Available

Source: **Veljanovski (1987),** "Selling the State", Weidenfled and Nicolson, London.
Ayub and Hegstad (1986), "Public Industrial Enterprises", Industry and Finance Series, Vol 17, The World Bank.

1.3 Performance

To start with, it must be emphasised that, performance measurement is an extremely difficult and complicated issue. In fact, even for private firms, the available methods of profitability, return on investment and residual income have been heavily criticised in the accounting literature. As for profitability, the hyper inflation experienced by all countries in the late 1970s onwards, made its calculation a protracted and complex business. Thus, it is by no means clear which profit figure should be used as a performance indicator- that is profits based on historical costs, or those based on current replacement costs. As for DCs, however, inflation accounting is simply unknown **(Likiermann,1984)**. Second, the absence of standardised accounting systems in most DCs creates wide variations in the treatment of depreciation charges, inventory valuation and cost of capital, which affect comparability and consistency. Third, absolute profit figures are entirely meaningless indicators, since they are not related to the investment base used to generate the profits.

Return on Investment, on the other hand, could lead to dysfunctional decisions. For example, in a bid to maximise the rate, management could simply cut costs (e.g. training, research and development), reduce the investment base by disposing of marginally-producing assets, or lease rather than buy, all of which would affect the long term value of the firm. Finally, the residual income method charges the cost of capital as an expense, which makes a firm with a high debt ratio less profitable than that with a high equity ratio.

As for PEs, however, the issue of performance measurement is further complicated by a number of factors. First, performance measurement essentially requires a regular flow of reliable, timely information. However, in many DCs, accounting systems are rudimentary, qualified accountants are in severe shortages, and the available financial statements are not prepared according to sound accounting practices **(Shirley, 1983)**. The information problem is further complicated by the fact that, the available figures cover the whole public sector units, which makes it difficult to separate those applying for PEs from those of government departments **(Short, 1984)**. Second, performance measurement essentially requires comparing standards or targets with the actual results achieved. However, PEs were normally assigned multiple and often contradicting goals, simply because they were created primarily to accelerate socio-economic development, and hence profitability was not a main objective. For example, to promote rural development, PEs were often located in remote rural areas that lack the basic infrastructure or the raw material supply; to curb inflation their prices were often set at unrealistic levels; and to contain unemployment they were normally overstaffed. As a result, their poor performance could be attributed to the presence of these social and macroeconomic objectives. Similarly, PE managers were often selected on the basis of political acceptance and personal ties, rather than knowledge and experience in business management. PE managers have no autonomy over prices or personnel policies, no incentives or punishments if performance improved or deteriorated, and they are often constrained by tight bureaucratic controls that limit their operational autonomy.

On the other hand, PEs have unlimited access to public funds, and exempted from custom duties. They might be required to acquire their inputs from other PEs at a price far below (or above) the prevailing market prices, and the suppliers may never be paid. Last, but not least, both public and private enterprises in most DCs are often protected from imports, which makes the local market more profitable than the international market. Therefore, good performance could be attributed to the market structure, rather than internal efficiency.

For all these reasons, therefore, financial performance as reflected in "the Profit and Loss Account" might be a poor and misleading indicator of financial performance. Indeed, recognising these pitfalls, **Herbert Morrison** argued that :

> ***"The public corporation must be no more capitalist business, the be-all and end-all of which is profit and dividends, even though it will, quite properly be expected to pay its way. It must have a different atmosphere at its board table from that of share-holder's meeting; its officers must regard themselves as high custodians of public interest".***
>
> **(Quoted by Nath, 1986).**

Similarly, the 1978 White Paper in the UK stressed the need to publish not only financial indicators but also non-financial indicators, including international comparisons.

A second indicator often used to compare public and private enterprises is the "Total Factor Productivity" (TFP), defined as the ratio of gross output to labour. The method is straightforward when both output and labour are homogeneous. However, in most cases the various labour categories must be unified into a total labour input. Moreover, the labour factor must be adjusted for any overmanning imposed by the state.

A third attempt to evaluate the performance of PEs was recently adopted in Pakistan and South Korea. Pakistan's signalling system consists of three main components : a management information system, a performance evaluation system and a bonus system. It adjusts private profits (after tax) for those elements that are irrelevant for PEs. That is,

$$\textit{Public Profits} = \textit{Private Profits (after tax)}.$$
$$+ \textit{direct taxes}$$
$$+ \textit{interest payments}$$
$$+ \textit{depreciation charges}$$
$$- \textit{non-operating income}$$
$$- \textit{opportunity cost of capital}$$
$$\pm \textit{adjustments}$$

$$\textit{Public Profitability} = \frac{\textit{Public Profits}}{\textit{operating fixed assets.}}$$

(Hartmann and Nawab, 1985).

The system requires four main prerequisites : (1) strengthening managerial selection and autonomy. (2) comprehensive information system, (3) highly skilled personnel to operate the system, and (4) political commitment **(Shirley,1989)**. Nevertheless, **Hartmann and Nawab (1985)** assert that "the system has had greatest impact on performance and managerial behaviour".

With these Caveats in mind, we now turn to review the available evidence on the performance of PEs in DCs. The available evidence, however, is inconclusive, and indeed yield mixed results. For example, **Nellis (1986)** concluded that "African PE present a depressing picture of inefficiency , losses, budgetary burdens, poor products and services, and minimal accomplishment of the non-commercial objectives so frequently used to excuse their poor economic performance". On the other hand, **Susungi (1988)** surveyed 48 African PEs in 1984 and found that, 12 PEs reported net profit margins of more than 4 percent, while 5 PEs reported net profit margins in excess of 10 percent. Moreover, almost 20 percent of PEs investigated attained a return on investment in excess of 25 percent. Indeed, even **Nellis (1986)** made some reservations in a later study, "...not all PEs, even in a region as difficult as Africa, are loss-makers (and 1984 was a very difficult year in Africa). In every developing country one will find one or several PEs or even whole subsectors which, despite commonly perceived problems, still manage to run at a profit" **(Nellis and Kikeri, 1989).**

Thus, it is evident that, there is no conclusive evidence on the performance of PEs. Nevertheless, the losses of PEs were often financed through government subsidies and massive borrowing from both internal and external capital markets. However, as local resources dwindled and foreign loans started to slow down in the 1980s, the fiscal deficits of PEs became no longer sustained, and the need for a radical enduring solution became widely recognised.

1.4 Problems of PEs

The various problems facing PEs have been subject to numerous studies in recent years **(e.g. Shirley, 1983; Nellis, 1986; Ayub and Hegstad, 1986; Wortzel and Wortzel, 1989; Hemming and Mansoor, 1988).** These include lack of clear objectives, excessive political intervention, and deficient control systems. Indeed, a number of studies attribute the poor performance of PEs to the control systems, which are due to lack of information flows, duality of objectives, the multiplicity of principals (i.e. the number of government departments monitoring PEs), and lack of a clear policy towards PEs **(Ghai, 1985; Ramamurti, 1987).**

Other problems include overstaffing for political reasons, bureaucratic controls over all operating decisions (e.g. salaries, budget preparation and approval, purchases, finance and investment), which are ill-suited for commercial enterprises operating in a dynamic environment. Moreover, the boards of directors are composed, in the main, of civil servants who have no financial stake in the profitability of the enterprise, poorly rewarded, and often lack knowledge and experience in business management. As we saw earlier, PE managers are selected on political basis rather than professional qualifications, have no autonomy to raise prices, to lay-off redundant staff, or to close unprofitable product lines or subsidiaries.

Nevertheless, although there is no conclusive evidence regarding the relationship between ownership and efficiency, the view that poor performance is a direct consequence of the ownership structure has gathered momentum. As a result, change of ownership or control was suggested as the only enduring remedy. In the following chapter, we shall discuss the privatisation concept and the various techniques suggested for its implementation.

Chapter Two

The Privatisation Concept and Techniques

2.1 Introduction

As we saw in the previous chapter, state intervention in the economic activities in the post-war period has been the norm around the globe. The last decade, however, has seen a major reversal to the political and economic consensus that dominated in the post-war period. State intervention and the over-extended PE sector, it was argued, "has robbed the economy of the flexibility it needed to achieve the necessary adjustment" **(Hemming and Mansoor, 1988).** As with the rise of PEs in the 1960s and 1970s, the driving force to "rolling back the frontiers of the state" has been both ideological and pragmatic. Yet, a third factor that led to the recent interest in privatisation in DCs has been the external pressures exerted on DCs to rely more heavily on free markets to allocate resources, and on the private sector to spearhead economic development. In this chapter we will outline the ideological contents of the policy, its meaning, and its various techniques. The economic arguments for and against the policy will be the main concern of chapter three, while the role of the external factors will be discussed in chapter four.

The ideological impetus to privatisation is largely attributed to rise of the right as the most significant political feature of the 1980s. As we saw earlier, industrial countries, notably the UK and the USA, witnessed the election of governments pledged to "rolling back the frontiers of the state". Their arguments were based on a strong belief in the efficiency of free markets, and a deep-seated belief in private ownership on the grounds that ownership is the sole determinant of enterprise performance **(Wortzel and Wortzel, 1989).** Moreover, the right is largely influenced by the "monetarist thoughts" which emphasise reducing public spending, restricting money supply, return to free markets, and less state intervention in the economic activities. Therefore, it was argued that, as many functions as possible should be transferred to the private sector "to reduce the burden on the state" **(World Bank Report, 1981).**

In the UK, for example, the large scale privatisations that were carried out during the last decade, were attributed basically to the election of a government committed to "rolling back the frontiers of the state". The Conservative Party which dominated the British politics during the 1980s strongly believes in free markets and private ownership. Indeed, their economic goals throughout this period were to curb trade union powers, to bring inflation under control, and to curtail public spending, which essentially required reducing public sector borrowing requirement **(Rees, 1986; Kay and Thompson, 1986; Vickers and Yarrow, 1988).**

Related to the ideology of free markets was the belief that public ownership had created a "dependency culture", where the British people have lost their self-reliance and responsibility, and became wholly dependent on the sate. Therefore, it was argued that, a new 'enterprise culture' was needed to revive the economy **(Veljanovski, 1987).** In this context, wider share ownership was seen as a means to creating popular capitalism (share owning democracy). Towards this end, enormous media advertising was deployed encouraging individuals to take "the enterprise initiative", and start their own business. Moreover, shares in the privatised industries were targeted to the small investors, and for that purpose, highly under-valued (see chapter 3). Politically, it was thought that, wider ownership would make the election of a Labour Government less likely, renationalisation extremely difficult, and more importantly, denotionalisation would undermine the powers of the trade unions **(Veljanovski, 1987).**

These views were further fuelled by the political developments that swept Eastern Europe, which were taken as evidence of the failure of socialism and central planning. Indeed, these sweeping political reforms have facilitated the move towards a market economy, which the communist countries have been opposing for more than 70 years. Even in China, which remained loyal to the principles of communism, it was reported that individuals have been allowed to own and control certain economic activities, mainly in the agricultural sector **(Berg,1987)**.

As for DCs, however, the current interest in privatisation is attributed to two main factors: the poor performance of PEs and the external pressures to implement fundamental economic reforms. As foreign loans slowed down and internal resources dwindled, the deficits generated by PEs became no longer sustained. Therefore, it was argued that "the state has to establish tighter priorities and cut back in areas where its presence is not essential" **(Van De Walle, 1989)**. An African version of the "Russian Perstroika", however, seems unlikely as manifested by the irony that, by the time that popular uprisings against totalitarian regimes were sweeping Eastern Europe, new dictators were emerging in Africa (e.g. the Sudan in mid - 1989). Therefore, it could be argued that, without sweeping political reforms, foreign investment might not be forthcoming, which would hinder the privatisation process, due to lack of capital. Moreover, without a stable political system with sufficient public support, it might be extremely difficult for the government to implement radical economic reforms, not least because they would entail heavy political costs.

2.2 Privatisation Defined

As the following quotations reveal, there is no specific precise definition of the term. Privatisation is "an ugly word" **(Heald, 1985)**, "a fuzzy concept that evokes sharp political reaction" **(Starr, 1988)**, "a word which should be heavily escorted by inverted commas as a reminder that its meaning is uncertain and often tendentious" **(Donnison, 1984)**. Indeed, it does not even appear in the Oxford Dictionary. Nevertheless, its a word used to describe various policies designed to substantially reduce the role of the state in economic activities, and strengthen the role of the market forces. It is thus about denationalisation and deregulation.

Denationalisation refers to the transfer of ownership or control from the public to the private sector. However, how much shares should be sold to private investors is inconclusive in the literature. **Beesley and Littlechild (1983)** specify "... at least 50 percent ", **Peacock (1984)** maintained that "... a predominant share sold", yet **Coburn and Wortzel (1986)** assert that "If after sale, the government is willing to limit its role to that of investor, and leave management to the private shareholders, a one percent sale would accomplish as much as 100 percent divestment".

2.3 Denationalisation Mechanisms

The following techniques were often suggested for the transfer of ownership and/or control.

1. *Sale of shares or assets through:*
   - *Public offering*
   - *Private sales*
2. *Liquidation*
3. *Management Buy-out*
4. *Leases and management contracts*

In what follows, we will outline briefly the main features of these techniques, based on **Vuylsteke (1988).**

2.3.1 Public Offering

Under this method, the state offers shares to the general public, either at a predetermined price or on tender basis. Under the former, the state sets a price in advance, and invites the public to subscribe at that price. To eliminate the risk that supply might outpace demand, the state might seek the services of underwriters, who accept to acquire unsubscribed shares for a fee. Under the tender basis, on the other hand, the share price is determined by the market, where applicants decide the price and the number of shares they are willing to acquire. The following example might clarify this method. Assume there are 2,650,000 shares offered, and that the following tenders were made by the public :

150,000	shares at £2.75 per share
330,000	shares at £2.70 per share
475,000	shares at £2.65 per share
745,000	shares at £2.60 per share
950,000	shares at £2.55 per share
1,350,000	shares at £2.50 per share
4,000,000	shares

Thus, since, there are only 2,650,000 shares, only those who tendered at £2.55 or more would receive shares, either at £2.55 per share, or at the price at which bids were made. The UK experience shows that the fixed offer often leads to over- subscription, which leads to the accusation that shares were under-valued. The tender offer while alleviating over-subscription and could lead to a higher price, has the risk of being too complex for small investors **(Vickers and Yarrow, 1989).**

Apart from underwriters, the method requires the services of investment banks to plan, manage and execute the offering. Equally, a change of legal form of the privatisation candidate might be required prior to a public offering (e.g. from a public corporation to a limited company),as well as changing the accounting systems. The success of this method depends very much on the status of the financial market, the level of education and income in the country concerned, and adequate information to be disclosed to the public.

The method has the advantage of widening share ownership, and the transparency by which it is carried out reduces the possibility for irregularities. Indeed, **Vuylsteke (1988)** asserts that "for these reasons, the method is often more politically palatable". On the other hand, if the enterprise is not in a sound financial position, financial restructuring might be needed prior to sale so as to attract investors. Moreover, the pricing of shares needs adequate preparation, because a high price lessens investor's interests, while a low price leads to the allegation that public assets were sold too cheaply, both of which are undesirable. Finally, the state needs to ascertain the ability of the market to finance the sale prior to flotation, and hence the timing of flotation is critical **(Vuylsteke, 1988).**

2.3.2 Private Sales

Under this method, part or all of the government equity is sold to a group of private investors through tendering or direct negotiation. The method is usually preferable where the financial market is underdeveloped and level of education is too low to permit a public offering. Also, if the PE is in poor financial position, the state might sell part of its equity to private investors with a view of turning the entity around prior to full privatisation. The assumption is that, the sales proceeds and the presence of private partners would improve performance to facilitate a public offering **(Vuylsteke, 1988).**

It has the advantage of being much easier than a public offering. But, unlike a public offering, it lacks transparency which increases the chances of irregularities, and could lead to concentration of wealth, with all its political consequences **(Ghai,1985).** In the case of joint ownership, the state needs to ensure private partners that it will not intefere in the operations of the enterprise, or use it to achieve social objectives, often a difficult task **(Rees,** 1986). As with a public offering, adequate information must be disclosed to prospective investors, and pricing needs careful planning (Vuylsteke, 1988).

2.3.3 Liquidation

This method is preferred when the PE can not be sold as a going concern, and hence it must be liquidated with its assets sold to interested investors. Thus, here the state sells assets rather than shares, which could be affected through tendering, open auction, or direct negotiation (Vuylsteke, 1988).The major problems with this technique are that assets are usually sold without the related debts, implying that the state must assume such obligations. Moreover, since the PE is liquidated, all the work force must be laid-off, which complicates the employment question. And the pricing of assets is often a protracted business.

2.3.4 Management/Employee Buy-out

Under this technique, the PE is usually sold to the work force as a going concern. Thus, it provides a feasible solution to the employment problem, the single most limiting obstacle to privatisation in DCs (see chapter 6). Its success, however, depends on the viability of the enterprise, the competence of management, and the level of education of the work force (Vuylsteke, 1988).

However, despite its political advantages, Vuylsteke (1988) found that it has not been widely used in DCs. The most limiting constraint, the author claims, is its funding problem. Moreover, if the level of education is low, and where there is no history of share ownership, the method may not be that attractive.

2.3.5 Leases and Management Contracts

The emphasis here is on management and control, rather than the transfer of ownership. It is often advocated when the PE is in poor financial position to permit the transfer of ownership, and hence private management is introduced to turn the firm around.

Under the lease arrangement, the state could lease its assets to a private investor, for an agreed period of time, in return for a fee. The lease agreement often specify the rights and responsibilities of both the lessor and lessee. The lessee assumes all financial responsibilities, and the lease fee is paid to the state regardless of performance. Therefore, the lessee must operate the assets in an efficient manner, while the state must ensure that the leased assets would be returned back in a good condition at the end of the contract **(Vuylsteke, 1988).**

Under the management contract, private management is hired to manage the enterprise for a certain period, in return for a fee. The arrangement is advocated to solve "management-related problems" **(Hegstad and Newport, 1987).** The state continues to be responsible for all operating expenses, and the management fee would be paid regardless of performance **(Vuylsteke, 1988).**The success of both arrangements depends very much on the business environment in the country concerned, and the degree of operational autonomy granted to the management contractor. Under both methods, the design and enforcement of the contract is the most important and difficult task.

These are some techniques suggested to transfer ownership and / or control to the private sector. However, the choice of the appropriate technique would depend on the privatisation objectives, the status of the capital market, the viability of enterprises selected for privatisation, and the sector in which they operate **(Vuylsteke, 1988).**

A second version of privatisation involves deregulation. That is, removal of all government controls over entry, prices, labour, and profits. However, such retreat by the state, **Swann(1988)** claims "may not be complete". That is, the state might need to regulate prices or profits so as to protect consumers against abuses by firms with considerable market powers, such as the natural monopolies. Moreover, critics have emphasised three main drawbacks of deregulation. First, **Bishop and Kay (1989)** argue that "The removal of statutory entry barriers does not ensure real competition", simply because other non-statutory barriers, such as size, information and experience, might deter entry. Second, deregulation allows private firms to engage only in profitable lines and drop the unprofitable ones, i.e. "cream-skimming". Advocates argue that the force of this argument will depend on the extent to which unprofitable services should be provided. Third, it was argued that, in the case of natural monopolies (i.e. where a network is involved, such as electricity, rail and gas), competition between numerous suppliers would lead to higher prices. That is because, average costs would decline as output increases, and hence a single supplier would be able to provide the service at a lower price. In this case, it was argued that "competition for the market rather than competition in the market" should be created **(Yarrow, 1986)**. That is to allow various suppliers to use the network and provide the service, through franchising. However, despite its theoretical appeal, franchising suffers a number of deficiencies. These include the availability of sufficient bidders, risks of collusion among competitors, the valuation of assets at the end of the contract, and the design and enforcement of the contract **(Yarrow, 1986; Bishop and Kay, 1989)**.

Nevertheless, it must be stressed that, both advocates and opponents of privatisation emphasize the role of deregulation in enhancing efficiency (see chapter 3). Indeed, it was argued that, if privatisation and deregulation are not in harmony with each others, the latter should be adopted **(Rees, 1986; Kay and Thompson 1986; Heald, 1990)**.

A third privatisation mechanism involves contracting-out of publicly provided services to the private sector. That is instead of employing direct labour to provide the service, the state could hire private contractors. Examples include refuse collection, school meals and hospital cleaning.

Bienen and Waterbury (1989) claim that only the sale and leasing of public assets, and contracting out are "instances of privatisation". For the purpose of this research, however, privatisation will be defined in a broader form to include not only denationalisation, but also deregulation and measures to expose PEs to the disciplines of the market forces, including the market for corporate control. The reasons are three-fold. First, experience shows that denationalisation is facing various difficulties in DCs (see chapter 6). Second, there is no conclusive evidence to support the view that ownership is a sole determinant of performance, or that a change of ownership in itself would lead to improved efficiency (see chapter 3). Third, where serious efforts were made to clarify objectives, strengthen management selection, incentives and autonomy, and hold them accountable for the results, as in Pakistan and South Korea, remarkable results have been achieved **(Hartmann and Nawab, 1985; Park, 1987)**. Indeed, similar approaches to privatisation in DCs, particularly Africa, have been proposed by **Ramanadham (1986); Callaghy and Wilson (1988).**

Thus, while ownership changes are considered, we will emphasize the broader concept of the policy[1]. However, it must be stressed that, we are by no means suggesting that denationalisation should be avoided. But, rather that its implementation is facing serious constraints, and in the absence of a sound economic, legal, and political environment, its potential benefits are by no means assured.

[1] This broader approach, which we refer to as privatisation of operating criteria, is sometimes referred to as commercialisation (e.g. Nigeria) or corporatisation (e.g. New Zealand).

Chapter Three

The Privatisation Theory : The Debate

3.1 Introduction

Ideological considerations apart, the recent impetus to privatisation in DCs is attributed to two main factors : the economic factors, and the external factors. In this chapter, we will review the economic arguments made for or against the policy, with reference to DCs. However, it must be stressed at the outset that, no explicit objectives were ever clearly stated, nor had the privatisation techniques been thought out. In addition, the search for the privatisation objectives is often complicated by the fact that, no systematic set of objectives were ever clearly stated for the policy, and that the motives differ across countries, and over time in the same country. Indeed, even in the UK, where major privatisations were carried out, the privatisation motives have evolved through time. As **Kay and Thompson (1986)** argue,

> ***"The reality behind the multiplicity of objectives is not that the policy has a rather sophisticated rationale, but rather that it is lacking any clear analyses of purpose ... any objective which seems achievable is seized as justification".***

Moreover, even in the UK, there was no specific and clear privatisation plan. Indeed, **Wortzel and Wortzel (1989)** claim that, "For the most part, countries have chosen privatisation candidates opportunistically. Rather than formulating and implementing a cohesive privatisation strategy, they have selected candidates on some other basis".

Nevertheless, a number of arguments have been made in favour of privatisation. These claims, **Rees (1986)** argues "should be regarded as economic hypothesis capable of being tested against empirical evidence". These are that :

(1) Privatisation would reduce PE's deficits, decrease the crowding-out of private investment, and generate resources to the Treasury , which could be used to reduce taxes and pay external debts.

(2) Privatisation would expose enterprises to the market forces, clarify objectives, enhance management incentives, and consequently leads to significant economic efficiency.

(3) Privatisation would lead to wider "real" ownership by the public.

(4) Privatisation would eliminate political intervention, and resolve the management and control problems of PEs.

In what follows, we will analyse the potential benefits of privatisation, with special reference to DCs.

3.2 The Fiscal Benefits

There are three main claims made in favour of the fiscal benefits of the policy. First, it was claimed that PEs constitute a significant budgetary burden in all DCs, and major borrowers both at home and abroad. Therefore, privatisation was suggested as the most enduring solution, in the sense that the privatised firms would no longer have access to public funds. Second, PEs often use the limited resources available, at the expense of private investment. Third, privatisation would generate substantial sales proceeds to finance tax cuts, pay external debts, or provide better health and education services.

At the theoretical level, these benefits might seem plausible to the authorities in DCs, where internal resources are limited, and foreign capital is no longer available following the international debt crisis of the early 1980s. However, we shall argue that the fiscal benefits of privatisation are likely to be limited, due to a number of reasons. First, the sale of profitable PEs - often selected for sale to ensure the success of privatisation - is unlikely to generate fiscal gains in the long run. That is because, if the sales price is exactly equal to the discounted net present value of profits that a PE would generate, the fiscal gains would be zero. In that case, the state would simply substitute cash for the future remittances. On the other hand, if the sales price is less than what the state would receive in the future had privatisation not taken place, the government stands to lose at a certain point in the future **(Van De Walle, 1989)**.Indeed, for a number of reasons, under-valuation of shares has been the norm (see below).

Advocates claim that "On the expectation that they can increase profitability, the buyers may pay the government a price higher than the discounted stream of profits that the Treasury would receive under continued public ownership" **(Galal, 1990)**. However, the available evidence indicates that this has never been the case. In the UK, for example, despite its well established financial market and formidable help from its sophisticated banking systems, there is evidence that shares have been heavily under-valued **(Vickers and Yarrow, 1988)**. Indeed, **Harris (1988)** points out that "the net present value of foregone income will exceed flotation income as early as 1990". As for DCs, however, the lack of sophisticated banking systems and technical expertise, and the generally distorted business environment, suggest that privatisation in itself will not lead to significant turnaround in performance.

Second, if the PE selected for sale is a loss-making enterprise, it would need to be turned around prior to privatisation, so as to attract investors. Such restructuring might involve "writing-off debts and tax arrears; writing-down assets to reflect market values, rehabilitation and injection of capital" **(Vuylsteke, 1988).** The fact is that, in the vast majority of cases, governments have initiated massive financial restructuring programmes to prepare PEs for sale. Examples include Canada, Chile, France, Hungary, and the UK **(Yarrow, 1986; Vuylsteke, 1988).** On the other hand, poor performing PEs can not be sold in their present financial condition, or sold at the minimum price, both of which are undesirable. Failure to sell would have a negative impact on future privatisations, while sale at the minimum price would lead to the allegation that public assets were sold too cheaply.

Apart from financial restructuring, the privatisation of both profitable and loss-making PEs would involve various transaction costs, such as administrative expenses and payment of worker's benefits. Administrative expenses would include the advisory fees (e.g. investment banks, accountants and lawyers), and advertising expenses, while the workers benefits would involve severance payments, retraining, and possibly extension of loans to acquire shares. Therefore, financing privatisation is likely to cause major concerns for the authorities in DCs in the short and medium term. Indeed, the available evidence indicates that, such costs have brought privatisation to a stand still in a large number of DCs **(Vuylsteke, 1988; Kikeri, 1990; Cowan, 1990).** In addition, to induce the limited number of "acceptable" buyers available, governments had provided subsidies (sweeteners), exemption from custom duties on imported machines and raw materials, deterred (soft) payment terms, or protection against imports. Needless to say, such fiscal concessions would cost vast sums of money, and hence reduce the fiscal benefits of privatisation.

Third, in the vast majority of cases, PEs selected for privatisation were the smaller enterprises, while the large enterprises that constitute a real burden on the Treasury, such as the rail, the telecommunications, and the agricultural schemes were classified as "untouchables". The following examples probably provide a powerful demonstration.

In Mexico, the number of PEs was reduced from 398 to 90 (i.e. 77 percent), but the privatised PEs represented around 23 percent of the total PE's assets **(Kikeri, 1990).** In Senegal, the 26 PEs selected for sale represented only two percent of the government equity in the PE sector **(Galal, 1990).** In Brazil, of total assets in the PE sector valued at $40 billion, those privatised had a value of only $27 million **(Galal, 1990).** In Guinea, the 70 transactions executed were small and non-operating PEs **(Kikeri, 1990).** Indeed, similar treatments took place in Chile, Bangladesh, Morocco, Pakistan, and Tunisia **(Berg and Shirley, 1987; Cowan, 1990; Kikeri, 1990).**

Fourth, in most cases, PE's deficits were caused by the government policies, and hence not a conclusive justification for privatisation **(Heald, 1990; Ramanadham, 1988).** That is, their prices were often set at levels far below the market prices, basically to protect consumers and curb inflation; they were often located in uneconomic sites, largely to promote rural areas; and they provided suitable jobs for political supporters, army officers and former ministers. Moreover, their unlimited need for funds was caused by their social objectives (e.g. building of roads, schools and hospitals) and failure of other PEs and government units to pay for the goods and services provided to them **(Nellis, 1986).** Finally, **Heald (1990)** claims that "cases of corruption and looting are not hard to find".

Similarly, for a number of reasons, sales proceeds are unlikely to be significant. To start with, the generally poor performance and out-dated plants of most PEs are likely to reduce sales revenues. Likewise, the smaller PEs, operating in competitive markets, often selected for privatisation, are unlikely to yield significant proceeds. Second, striking a correct selling price has not always been easy, because PEs were not listed on the stock markets, and there are no identical private firms to compare them with PEs. In addition, in most DCs, there are no sophisticated banking systems to carry out the complicated valuation process of enterprises that often lack a proper set of accounts, and have not been audited for years.

Foreign advisers, if allowed, are likely to face resentment from the bureaucrats and PE managers, and the lack of appropriate records could hinder their job **(Leeds, 1988).** For these reasons, therefore, establishing a correct price is technically difficult.

Indeed, it might not be desirable either. For example, in order to ensure the political success of the policy, the state might deliberately under-value shares. The case of the UK is again illustrative in this respect. Despite its well-established financial institutions and its sophisticated accounting standards, there were accusations that shares have been under-valued to the extent that the Treasury is said to have lost billions of the tax-payer's money **(Veljanovski, 1987; Vickers and Yarrow, 1988).**

Third, the government objectives could also reduce the sales proceeds. For example, to promote popular capitalism, shares may be under-valued, payment staged over a number of years, and management buy-out might be preferred to other mechanisms regardless of the price received. Foreign investors and certain local residents might be excluded, thereby reducing the number of bidders, which in turn reduces the sales revenues. To attract buyers, the state might provide soft loans, accept instalment payments, provide incentives to encourage stakeholders to hold on their allocations (bonus shares), provide discount against bills (as in the case of British Gas), or tariff and quantitative protection. Indeed, **Vuylsteke (1988)** argues that "the special privileges granted to investors, have been a source of considerable controversy, especially in Africa". In Togo, for instance, a steel mill plant was leased with a protection rate of 41 percent and tax-free on all imported inputs, in return for a lease fee of $175,000, which covered "a fraction of the interest charges the Government of Togo must continue to pay on the original large investment" **(Nellis, 1986).** Similarly, **Kikeri (1990)** argues that "In Guinea, six of the fifteen completed transactions accorded the purchasers more favourable terms than those foreseen under the new investment code". These cases clearly raise serious questions regarding the government ability to negotiate sound economic deals. As we shall see later, there is a conflict between the revenue generating objectives and other objectives, such as efficiency and popular capitalism. Moreover, **Cowan (1990)** points out that the socio-political consequences of Labour retrenchment have led the governments of Banama, Bangladesh and Malaysia to impose on potential buyers to retain the whole work force for a certain period. Needless to say,such commitments, the difficulty of establishing a correct price, and the concessions provided to attract investors would undoubtedly reduce the sales revenues.

Finally, there is no firm evidence to support the proposition that PEs have created a 'crowding-out' effect. For example a recent study carried out by the "International Finance Corporation" - the World Bank group - concluded that "This analysis does not prove conclusively that public investment goes hand-in-hand with private investment, or that 'crowding-out' takes place" **(Madarassy, 1990).** Indeed, **Vuylsteke (1988)** points out that, where the capital market is underdeveloped, privatisation could cause significant 'crowding-out' effects, because the limited internal resources available could have been used to establish new firms, or expand the existing business.

As noted above, the state might provide various fiscal concessions so as to attract buyers, which would cause a real burden on the Treasury and the banking systems. Moreover, **Bienen and Waterbury (1989)** argue that "in many DCs private enterprises raise capital through the banking system rather than by directly selling shares on capital markets". Finally, in the case of debt: equity swaps, the central bank of the indebted country would be required to redeem the external debt in local currency at the prevailing exchange rate (see chapter 6). However, given the fact that, most DCs have devalued their currencies many times during the last decade, these transactions are likely to cost a substantial amount of money.

For all these reasons, therefore, privatisation is unlikely to have a significant impact on the financial market. As **Rees (1986)** argues, "Simply to reclassify borrowing as private rather than public does nothing to change the pressure of demand on financial markets". As a result, the argument that privatisation would generate fiscal gains in DCs is highly debatable. Similar conclusions were reached by **Hemming and Mansoor (1988); Heller and Schiller (1989)**. Indeed, even in the UK, **Rees (1986)** argues that, "Possibly the unconvincing nature of this hypothesis explains why it has been deemphasised in more recent Ministerial statements on privatisation".

3.3 The Efficiency Benefits

Although the microeconomic theory never established a firm link between efficiency and the ownership structure, a number of arguments were made suggesting that denationalisation would generate significant allocative and productive efficiency benefits. Allocative efficiency implies that the correct combination of goods will be produced, while productive efficiency means that the maximum amount of goods will be produced at the least possible costs. These arguments were based on the property right theory **(Alchian, 1965; Leibenstein, 1966; Williamson, 1975)**. First, it was argued that, public ownership inhibits efficiency, due to lack of incentives and shareholders with a direct interest in the operations of a PE. The tax-payers cannot exert real pressures on management to operate efficiently, and finance is often obtained from the Treasury regardless of performance. Therefore, public managers have no incentives to be financially viable, and the absence of market disciplines imply that PEs can never go out of business. Private enterprises, on the other hand, are exposed to the disciplines of market forces, including the market for corporate control. Thus, if the capital market is efficient, a firm that fails to control costs, reduces its profits, and hence becomes a target for takeover or bankruptcy. The threat of bankruptcy or takeover, therefore, would force management to cut waste and innovate so as to stay in business. As a result, the product market will enhance allocative efficiency, while the capital market enhances productive efficiency.

Second, it was claimed that, management incentives to maximise profits and control costs are seriously hampered by the structure of ownership. PEs are often given numerous and contradicting goals, and supervised by numerous, ill-coordinated government agencies. Therefore, denationalisation would clarify objectives, reduce the number of principals, and eliminate the excessive political interference. Third, a change of ownership would replace the "uninterested" civil servants by "real" shareholders who have a direct financial stake, and hence exert pressures on management to minimise costs, innovate and seek new markets. Finally, the absence of market disciplines encourages trade unions to demand higher wages, regardless of performance. Therefore, privatisation, it was argued, would undermine the trade union powers.

For these reasons, it was claimed that, PEs are less efficient than their private counterparts. These claims, however, could be refuted on the following grounds. First, in the vast majority of DCs, the capital markets are highly inefficient. As **Heald (1990)** argues "Existing capital markets are not only thin and underdeveloped, but also rife with insider trading and other dubious practices". International takeover is unlikely to be effective, simply because the generally distorted macroeconomic environment, and the unstable legal and political systems in most DCs is likely to deter foreign investors. Second, there is no reason to suggest that the market for corporate control would be efficient once privatisation was implemented. That is because the government could still control takeover bids through the "golden share" mechanism. The "golden share" is a special share that can only be held by the state, and gives the state a "veto power" over certain decisions, including takeover, if the national interest so demands **(Vuylsteke, 1988).**

Third, PEs were originally created to facilitate political intervention in the interest of development. Indeed, there are those who claim that "Public enterprises and the way they operate are ultimately the consequences of the relations between the social forces in a society ... If you roll back the state in its more visible manifestations, these forces will come back in another form, less accountable and perhaps even more irresponsible" **(Ghai, 1985)**. Moreover, privatisation would deprive the state from maintaining effective control over macro-economic policies, such as employment, wages and rural development, which are still high on the national agenda. Fourth, due to various reasons (e.g. uncertainty, tax structure and information problems), the profit maximisation objective was questioned in the theory of the firm **(Vickers and Yarrow, 1988; Ekern and Wilson, 1974)**. This is particularly true for stakeholders who are also consumers of the firm's products, because there might be a trade-off between higher dividends and higher prices paid for the goods **(Vickers and Yarrow, 1988)**.

Fifth, there is no firm evidence to support the proposition that private firms in DCs are more efficient than their public counterparts. The same factors that contributed to the poor performance of PEs apply equally to private firms. These include the excessive government intervention in internal markets, the distorted business environment, and the protectionist policies adopted in most DCs to protect the so called "infant industries", public and private. As **Nellis and Kikeri (1989)** argue " ... leaping from this point to the conclusion that the private sector can not do worse is not a serious argument". More importantly, comparing the performance of public and private firms is a technically difficult task, not least because performance comparison involves comparing identical firms in terms of objectives, size, age, technology, management and market structures. However, it is often rare to find such identical firms, which makes the comparison incomplete and misleading.

Nevertheless, apart from these methodological problems, the relatively small amount of empirical work carried out so far in DCs, does not indicate that private firms are superior to PEs. A good example is **Millward (1988)** who concluded that "There is no conclusive evidence of a statistically satisfactory kind to suggest that Public enterprises in LDCs have a lower level of technical efficiency than private firms operating at the same scale of operations". Similar conclusions were reached by **Kirkpatrick (1986); Gupta (1982); Perkins (1983); Tyler (1979).**

More importantly, the available evidence suggests that, the efficiency of an enterprise is determined by the quality of its management and the market structure within which it operates, rather than who owns it.

> ***"In theory efficiency will be highest when an enterprise strives to maximise profits in a competitive market, under managers with autonomy, capacity and motivation to respond to competition, and when enterprises that cannot compete go bankrupt".***
>
> ***(Shirley, 1989)***
>
> ***"The basic difficulty of arguments for divestiture on the grounds of an alleged superior allocative efficiency is that, while mainstream micro-economic theory does point to the allocative superiority of competition, it is actually silent on the ownership issue".***
>
> ***(Commander and Killick, 1988).***

Thus, it is competition, local or foreign, that enhances efficiency by forcing management to minimise costs, innovate and develop new products, and seek new markets. In the absence of competion and challenges, there is no reason to suggest that any enterprise, public or private, would be efficient, indeed the balance could go either way. For example, the empirical evidence from the American electricity industry **(Pescatrice and Trappani,**

1980), Australian air transport **(Davies, 1971)** and the German insurance industry **(Finsinger et el,1985)**, point to the superiorrity of PEs operating in a competitive environment. In the context of DCs, examples include Hindustan Machine Tools in India, CVRD in Brazil, Tea Development Authority in Kenya, and the Telecommunication Authority in Ethiopia **(Shirley, 1983; Ayub and Hegstad, 1986)**. The satisfactory performance in all these cases was attributed largely to the fact that they operate in a competitive market. "Domestic and foreign competition, which leave no room for complacency, appears to have been an important factor ..... An environment where challenges are non-existent can suffocate the initiative of the best managers, public or private" **(Ayub and Hegstad, 1986)**. Such evidence clearly indicates that significant efficiency gains could be achieved by exposing enterprises, public or private, to greater market forces. Therefore, it is essential to remove entry barriers, encourage exports, expose local firms to foreign competition whenever possible, restructure giant corporations into smaller entities so as to foster competition, rather than to transfer ownership.

Advocates claim that privatisation is a necessary condition for deregulation, because PEs backed by the cheap state funds would be able to deter entry. However, apart from the fact that private firms with considerable market powers could equally deter entry, experience shows that privatisation had actually inhibited deregulation. The reasons are three-fold. First, breaking-up giant enterprises is often time-consuming, lessens investor's interests, and reduces the sales proceeds, because enterprises operating in a fierce competitive market are unlikely to attract investors. Therefore, preoccupation with the success of the policy for political and financial reasons, could lead to competition, domestic and foreign, being sacrificed. Second, experience shows that the management of the privatisation candidates often resist the breaking-up of their entities, so as "to enjoy the quiet life of monopoly" **(Kay, 1987)**. Therefore, to ensure their commitment and cooperation, which is essential for the success of the policy, competition could be sacrificed. As **Bishop and Kay (1989)** argue "The political power of senior management arises from the observation that any privatisation which does not enjoy their support will be at best a difficult and protracted process". Similarly **Vuylsteke(1988)** states that "preparing large PEs for privatisation can not be done without the full commitment of top management". Third, to attract buyers, an increasing number of governments have granted more protection for the privatisation candidates. Examples include Togo and Guinea **(Nellis, 1986; Kikeri,1990).** In the UK, **Moore (1986 a)** stressed that "The long term success of the privatisation programme will stand or fall by the extent to which it maximises competition. If competition cannot be achieved, an historic opportunity will have been lost". In reality, that "historic opportunity" has been lost,and powerful enterprises, such as the telecom and gas, were privatised as a whole, raising serious concerns about the effectiveness of the market for corporate control. The point is that, the size of such firms would hinder the efficiency of the capital market, which hinders the efficiency claims.

Thus concerns to maximise sales revenues, to ensure the success of the policy, and to maintain the support of management, had led to the relegation of competition to lower levels. In effect, a regulatory system was suggested to protect consumers against monopoly pricing and poor quality services. As **Moore (1986 b)** claimed, "I firmly believe that where competition is impractical, privatisation policies have now been developed to such an extent that regulated private ownership of natural monopolies is preferable to nationalisation". However, there is no firm evidence to support the view that regulation is more efficient than public ownership **(Rees, 1986; Van De Walle, 1989).** Moreover, regulation raises difficult questions regarding the capacity of DCs to design and operate a regulatory system. **Vuylsteke (1988)** asserts that "a number of governments have increasingly come to the conclusion that the introduction of an adequate regulatory framework is the more effective control tool than ownership". This is debatable, not least because DCs lack the necessary conditions for the creation of an adequate regulatory framework. The fact is that, in most DCs, there are no standardised reporting systems, no active agencies to protect consumers, the media is controlled by the state, and no established, respected, and consistently applied legal system. Indeed, even in the UK, there are growing concerns regarding the efficiency of the regulatory of regulated industries, such as British Telecom and British Gas **(Vickers and Yarrow, 1989)**. Nevertheless, it is evident that there is a conflict between privatisation and deregulation, and experience shows that the former has often been preferred at the expense of deregulation.

However, advocates claim that the threat of potential competition might be sufficient to enforce greater efficiency as does actual competition, and hence the number of firms in the market is irrelevant. This argument, based on the "contestable market theory" proposed by **Baumol et al (1982)**, suggests that it is possible to create a competitive market behavior regardless of the number of firms, if the incumbent firm is exposed to threat of potential competition. The theory assumes that if entry involves no sunk costs-defined as costs that are irrecoverable by leaving the industry - there would be no exit barriers. Therefore, even a monopolist will not be able to earn monopoly profits, because he would be vulnerable to "hit and run" by a transient, who could enter the market, undercut prices/costs, earn a profit and leave costlessly. The theory suggests that the following properties hold in a contestable market:

(1) ***Prices are always equal to average costs. If prices are greater than average costs, a new firm will enter, reduce prices, and earn a profit. If prices are less than average costs, existing firms will incur losses, some will disappear (costlessly), allowing prices to rise.***

(2) ***There are no unnecessary costs, because if existing firms are inefficient in production, entrants could produce more efficiently, earn a profit, and, if necessary, depart costlessly.***

As **Baumol et al (1982)** argue:

> ***"Even a very transient profit opportunity need not be neglected by a potential entrant. For he can go in, and, before prices change, collect his gains and then depart without costs should the climate grow hostile."***

Thus, the theory suggests that, it is the entry threat and not the number of firms that determines the competitiveness of a market. And it is the presence of sunk costs that constrains entry.

Opponents argue that the assumptions upon which the theory is based are unrealistic and difficult to satisfy. In particular, the assumption of zero sunk costs was criticised as unrealistic and irrelevant to real life industries, such as the import substitutes. Second, the theory assumes that the entrant can establish itself, earn a profit without any response from the existing firms. This implicit assumption of zero time lag was criticised as unrealistic. Third, the incumbent firm might be able to deter entry through aggressive pricing, raising wages or advertising **(Rees,1986; Vickers and Yarrow, 1988; Kirkpatrick,1988).**

In the UK, for example, the road transport was deregulated in the early 1980s, and a number of rivals entered the market in direct competition with the state-owned National Express. However, the National Express taking advantages of its access to major city terminals, its name, experience and financial advantages managed to dispose of its rivals. In effect, it was argued that "Liberalisation did not significantly reduce the market share of the state-owned National Express" **(Bishop and Kay, 1989).** However, it could be argued that the National Express can not raise fares above competitive levels or allow its services to decline due to the presence of potential competition. Another example of a contestable market is the aviation industry provided that the routes were deregulated. In this case, a transient could enter the market, earn a profit, and leave costlessly by shifting to another route or sell his assets. It follows that the road and air transport could be made contestable, provided that routes were deregulated. In the road and air transport the sunk cost is zero, because the entrant could lease rather than buy, or shift to another route when "the climate grow hostile". However, we are here mainly concerned with large development projects, which required substantial costs to establish. These costs are by no means recoverable, and hence the contestability conditions are unlikely to be satisfied.

Finally, although the efficiency argument was cited more than often as a case for privatisation, it is not yet clear how privatisation has affected the performance of privatised industries. The reasons are two-fold. First,it appears that the primary goal of the available studies, particularly those carried out by the World Bank, is to advice policy makers in DCs on how to implement privatisation (e.g. **Vuylsteke, 1988; Nankani, 1988; Candoy-Sekse, 1988**). Second, there were major restructuring introduced prior to privatisation and it is difficult to speculate about what would have happened had the privatised industries remained under public ownership. These methodological problems, therefore, make performance evaluation at best difficult **(Yarrow,1986)**.

Nevertheless, the relatively small amount of empirical work carried out so far does not provide conclusive evidence on the effects of privatisation on performance. For example, **Formann-Peck and Manning (1988)** compared the performance of the British Telecom (BT) with the performance of four European telecom industries, using the "Total Factor Productivity method". They found that BT is less efficient than its counterparts in Norway, where the industry is state-owned, and in Denmark where the company is a joint venture. On the other hand, BT is more efficient than its counterparts, in both Spain and Italy where ownership is mixed. Clearly such intra-country comparison raises a host of political, cultural, and other factors in the broader environment. Nevertheless, the study failed to show the effects of denationalisation on the performance of BT. In any case, BT was performing profitably under public ownership (see below).

In another study, **Bishop and Kay 1989)** compared the performance of various privatised industries in the UK with others that remained public. The authors reported that the privatised industries have improved remarkably, but this improvement, the authors claim, "has more to do with the nature of industries concerned ... the privatised industries that have grown rapidly (BT, Cable and Wireless) were doing so before privatisation. The Associated British Ports, however, performed poorly under both public and private ownership". **Bishop and Kay** also found that the greatest gains in TFP occurred in PEs that were not selected for privatisation (e.g. British coal). In effect, they concluded that "The significant improvement in the performance of the remaining public sector denies any simple views about the relationship between ownership and performance".

In summary, there is no firm evidence to support the claims that ownership is the sole determinant of performance. Indeed, the available evidence suggests that enterprises (public and private) tend to perform better when they are exposed to the disciplines of the market forces **(Ayub and Hegtstad, 1986; Hemming and Mansoor, 1988; Kay and Thompson, 1986; Shirley, 1989)**. But, as noted earlier, in DCs, government intervention in internal markets is quite excessive, and firms (public and private) are protected against imports. Therefore, there is no reason to suggest that a change in ownership in itself would pave the way for economic efficiency.

Indeed, for these reasons, privatisation is unlikely to correct the distortions in the labour market, because in the absence of competition, trade unions will still demand a share in monopoly profits. Equally the claims that privatisation will tighten the financial constraints on management and reduce political intervention in wages is largely invalid in DCs. That is because, in the absence of the income support systems, wages and employment policies become a sensitive political issue. It is true that PEs are not exposed to the market disciplines confronting their private counterparts. But, this is not a conclusive ground for privatisation. Internal reform through exposing PEs to a more demanding, competitive environment could generate significant efficiency gains. As **Hemming and Mansoor (1988)**argue "despite the inconclusive nature of the evidence, it is difficult to believe that existing public enterprises are not capable of achieving significant improvements in efficiency".

3.4 The Wider Ownership Benefits

A third privatisation objective is that privatisation would lead to real ownership by the public, and give the public the right to choose. Public ownership, it was argued, forces the public to hold shares which they might not wish to hold if they were free to do so. In addition, privatisation would lead to wider ownership, and thus helps to promote popular capitalism.

The force of this argument would depend on the privatisation mechanism. In industrial countries where there is a well developed equity market, privatisation was carried out through a public offering of shares. Therefore, privatisation may widen share ownership, though if shares were under-valued, stakeholders might sell their allocations, collect their gains and depart in the early days of trading. Consequently, ownership will be transferred to the financial institutions and possibly foreigners. In the UK, for example, where public offering was used quite extensively, there is evidence of such behaviour. In the recent water privatisation, for example, the opposition spokesman asserted that "ownership will be transferred in a matter of weeks" **(Gould: The Independent, 13/12/1989).**

In DCs, however, a public offering is unlikely to be a predominant privatisation mechanism, due to the under-developed and inefficient capital markets, poor reporting standards, weak confidence in the financial system, and under-developed private sector. Indeed, this has been the case even in some middle-income countries such as Turkey, Mexico, Egypt and Venezuela **(Bienen and Waterbury, 1989; Escobar,1988).** Likewise, in Eastern Europe and other DCs that were adopting a socialist system, the effective revival of the capital market faces serious hurdles and might take a considerable time to evolve. In the words of the Hungarian Finance Minister "a financial intermediary culture is now needed for the successful evolution of the market" **(The Guardian, 30/1/1990).**

Another privatisation mechanism that might lead to wider ownership is the management/employee buy-out. But, as we saw in chapter two, this technique has not been widely used in DCs, due to its funding problems. Therefore, private sales are likely to be the main privatisation mechanism in DCs, which would lead to the concentration of wealth, rather than widening ownership.

3.5 The Management and Control Benefits

A final major objective of privatisation relates to the management and control problems of PEs. The argument runs as follows. Public managers are often required to persue contradicting objectives, and report to numerous, ill-coordinated government agencies. The selection of managers and board members is based, in the main, on factors other than professional qualifications, and their operational autonomy is limited. The civil servants who monitor PEs are not interested in their financial performance, and tend to observe the rules and regulations that are irrelevant for commercial entities. Likewise, it was argued that, PEs have become a burden on the government officials, whose limited staff is devoted to PE's problems. As the **World Development Report (1983)** put it "state-owned enterprises are stretching the scarce managerial skills". These claims were further supported by failure of governments to establish a satisfactory control system over PEs. For these reasons, it was claimed that it is difficult to run a business efficiently under public ownership. Therefore, the only solution that emerged was to change ownership, and let the market forces maintain control.

However, while we do agree that no satisfactory control system has ever been developed, we shall increasingly argue that, privatisation is unlikely to provide a perfect remedy in all cases. First, some of the privatised industries are the "commanding heights" of the economy, and hence the central government would need to get involved in their operations to ensure public interest. The regulatory mechanisms created for the public utilities in the UK and elsewhere provide a powerful demonstration of this assertion. Second, for a number of reasons, governments have opted for joint ownership rather than complete privatisation. These reasons are summarised by **Vuylsteke (1988)** as follows: (a) to maintain effective control over strategic industries, (b) to improve performance, and (c) inability of the financial market to acquire the whole enterprise. Nevertheless, regardless of the reasons, mixed ownership raises a number of questions regarding the relationship between such joint ventures and the state **(Steel, 1984; Heald, 1985)**. This is particularly a serious problem in DCs, where the legal framework within which private enterprises operate is not clearly defined or strictly adhered to. In most cases, whenever an economic crisis arises, the "President" could simply repeal the existing laws and introduce new set of rules that suit the situation. More importantly, joint ownership is unlikely to lead to significant changes in managerial behaviour, access to state funds might yet be available, the government might guarantee foreign loans, and possibly some form of bureaucratic control to ensure public interest. In the UK, the government announced that it will not interfere in the operations of the joint ventures. However, such provisions were not stated in a legal and precise manner in the prospectus, which casts doubts on whether the state will abide by such commitments. As **Rees (1986)** argues "In those circumstances, privatisation becomes essentially a statement of intent or a self-denying ordinance". Similarly, **Littlechild (1983)** states that "As long as the ultimate control lies with the government, one cannot hope to avoid all the problems".

Third, the argument that private management is more efficient than public management, we believe, is not a serious argument. The reason is very simple, worldwide, there are inefficient private enterprises **(Kay and Thompson, 1986).** It is true that private firms are exposed to the disciplines of the capital market, but PEs could also be exposed to the threats of market forces. The problem of multiplicity of objectives, numerous principals, and excessive political interference could be rectified by internal reforms, as in Pakistan and South Korea. Indeed, **Shirley (1983)** argues that "The Key factor determining the enterprise performance is not whether it is publicly or privately owned, but how it is managed. In theory, it is possible to create the kinds of incentives that will maximise efficiency under any type of ownership".

In the end, it is difficult to suggest that privatisation would put an end to political interference in most DCs. The fact is that, in most DCs, political interference in internal markets is quite excessive, and hence applies to both public and private enterprises. Yet, it must be stressed that, the management and control problems of PEs probably provide the strongest case for the complete privatisation of PEs operating in competitive markets. As **Rees (1986)** argues "Where a public enterprise is financially viable, and will be subject to full and effective competition ... there is no case against privatisation on economic grounds. Competition is the best regulator". However, no such a case exists for the privatisation of public utilities, as **Rees (1986)** argues "Wholesale privatisation is a leap in the dark". Finally, the argument that regulation is more efficient than public ownership is simply unsubstantiated.

3.6 Conclusion

Ideology apart, the drive for privatisation in DCs is attributed, in part, to the poor performance of PEs, and the substantial deficits they generated. In economic terms, however, privatisation in itself is unlikely to enhance efficiency, not least because no firm evidence exists to show that ownership is a sole determinant of performance. The fiscal benefits of privatisation are likely to be limited, or in the words of **Heller and Schiller (1989)**, "strictly speaking nil". The sale of profitable PEs improves the liquidity position of the state in the interim, while the sale of loss-making PEs would require massive financial restructuring to be undertaken prior to sale.

The claims that privatisation would lead to wider ownership (popular capitalism), is unrealistic, given the status of capital markets and the private sector in most DCs. The strongest case for privatisation is perhaps the failure of all efforts to design and operate a satisfactory control system for PEs. Indeed, as we noted in chapter one, a number of studies attribute the poor performance of PEs to their control problems, which in turn contributed to the current interest in privatisation. As **Heald (1985)** argues, "This is an important contributory factor to the vacuum into which privatisation as a solution to the problem of control has surged". However, it is not at all clear how would privatisation solve the control problem in the case of joint ventures or public utilities (e.g. telecom, rail, electricity and water).

Therefore, it could be concluded that, the potential benefits of privatisation in DCs are by no means certain. As **Harris (1988)** argues "The case for privatisation is not clear cut from an economic point of view, and many of the arguments remain political in nature". As a result, the search for a rationale for the policy continues (Kay and Thompson, 1986).

Chapter Four

The Role of International Organisations

4:1 Introduction

Having identified the economic rationale for privatisation, we now turn to investigate the role of international institutions in promoting the policy in DCs. However, it must be stressed that, some DCs mainly South East Asian countries, have planned and executed their privatisation programmes without any significant external pressures. Nevertheless, in most DCs, particularly African countries, the impetus to privatisation is attributed, in part, to the external pressures exerted on DCs to implement radical economic reforms. As **Callaghy and Wilson (1988)** argue "For Africa more than other regions, the push factors have been very important, probably predominantly so. Directly or indirectly through various types of conditionality by a wide variety of external actors, privatisation has been placed on the African agenda in a forceful way".

One of these international organisations that has been heavily involved in promoting privatisation in DCs is the World Bank. Indeed, the World Bank publications during the 1980s specified clearly areas into which aid funds would be channelled. "Priority consideration should be given to action in three areas : (i) allocating a higher proportion of foreign funds to local development finance institutions and commercial banks for onlending to small and medium enterprises; (ii) encouraging private investors to take over inefficient state-owned enterprises and to undertake new projects currently included in public investment plans..; (iii) introducing private sector development loans to meet the short and medium term foreign exchange requirements of private enterprises, linked to policy reforms that promote competitive markets and efficient resource allocation" **(Marsden and Belot, 1987).** Indeed, in most cases, loans were made conditional on implementing privatisation (see below).

Ideology apart, it was argued that, the poor performance of PEs was attributed solely to ownership. "PEs in diverse activities share common problems, many of which are the product of public ownership" **(Galal, 1990).** As a result, a change of ownership or control was suggested as the only remedy. "The more enduring solution is to sell to the private sector those which can be sold; and for those for which no buyer can be found, one should go further and simply close them permanently and liquidate their assets" **(Nellis, 1986).** Thus, privatisation was suggested as the "enduring solution", though the author **(i.e. Nellis)** correctly noted that "domestic African private sectors are mostly dominated by traders and artisans, not enterprise managers or investors". The poor performance of PEs is "the product of public ownership ", though a senior Bank official noted that "The key factor determining enterprise performance is not whether it is publicly or privately owned, but how it is managed "**(Shirley, 1983).** Nevertheless, the emphasis remain on privatisation as the long term objective. "Devolution of marketing functions to the private sector may be difficult in some parts of Africa, but this should affect only the pace for change, not the objective" **(World Bank Report, 1981).**

Other international actors include "the International Monetary Fund" and the "United States Agency for International Development". In this chapter, however, we shall investigate the role of the World Bank, not least because the Bank has been outspoken in formulating "agenda for reform" to its member countries. In considering that role, we shall rely solely on the World Bank publications, as well as our interviews with the Bank staff. Such publications arguably represent the views of the authors and not the Bank. Indeed, there are a variety of views even among the Bank staff, such as **Mary Shirley** referred to above.

Nonetheless, these are the people who formulate the policies for the Bank, and hence their views are important.

4.2 The Role of the Bank

During the 1980s, the World Bank has published a number of reports on the size and performance of PEs in DCs. In all these reports,the Bank wasted no chance in criticising the efficiency of PEs, and advocating privatisation as "the most revolutionary innovation in the recent history of economic policy" **(Hanke, 1987)**. The Bank takes the view that the private sector is the only way to accelerate economic growth in DCs."Development in many countries throughout the world has shown that the initiatives and drive of private investors and entrepreneurs can be important agents for economic growth" **(Marsden and Belot, 1987)**. **Dabani (1988)** points out that, this is a change of policy stance that was adopted by the Bank in the post-war period, where the Bank had supported public ownership. The major deficiencies of that support were that, the main emphasis was on transferring modern technology so as to improve productivity. However, many DCs did not have the technical expertise to operate such a technology, and the breakdown of repair and maintenance at a later stage, due to lack of foreign exchange to acquire the necessary spare parts, resulted in wasted capacities. As a consequence, many DCs failed to payback the debts used to acquire the plants, and more importantly the import substitutes objective never materialised. A related drawback was that, the Bank did not give any due consideration to the management aspects, which proved to be critical , due to the severe shortages of qualified managers **(Shirley, 1983)**. Indeed, **Heald (1990)** claims that "Unfortunately, however, the World Bank's interest in management reforms probably came rather late to have much effect as attention swung towards the privatisation option".

Nevertheless, during the last decade, the Bank issued a series of reports emphasising the role of private investment to spearhead the development process. The following statements are probably illustrative of this message. The 1981 report : **"Accelerated Development in Sub-Saharan Africa: An Agenda for Action"**, concluded that:

> ***"The Keystone of any marketing reform must capitalise on the indigenous trading system, a proven asset, and let it play a bigger role in the distribution system. The private sector with its small scale, decentralised and flexible structure is particularly well-suited for this task".***

and,

> ***"It is now widely evident that the public sector is over-extended, given the present scarcities of financial resources, skilled manpower and organisational capacity. This has resulted in slower growth than might have been achieved with available resources, and accounts in part for the current crises. Without improved performance of public agencies, stepped-up growth will be difficult to achieve".***

Similarly, the 1983 World Development Report stated that:

> ***"In many countries, the expansion of the public sector has stretched its managerial capacity to the point where serious inefficiencies result... indicating a need to reassess priorities, prune what has become unmanageable and strengthen the effectiveness of the state's core responsibilities".***

It is thus evident that, the theme of these reports is that PEs are "over-extended", and "inefficient" resulting in slower growth. However, there is no firm evidence to support the view that economic growth is related to the size of PEs, or that PEs are less efficient than private firms. For example, **Kirkpatrick (1986)** compared the share of PEs in GDP in a sample of 12 African countries with the growth in GNP per capita, using rank correlation, but failed to find a significant correlation. The author concluded that "The cross-country data fail to show any significant correlation between the size of public enterprises and the level of development. Nor is there evidence to support the view that the expansion of the public sector has led to slower economic growth. The contention that the state-owned sector has been, in general, over-extended and that its future role should therefore be reduced is unsubstantiated". Similar conclusions were reached by **Heller and Tait (1983),** and **Nunnenkamp (1986).** Indeed, if this were so, then most European countries (e.g. the UK, Germany, France and Italy) should have been lagging far behind, because the industrialisation process was carried out, in the main, by PEs.

Likewise, there is no firm evidence regarding the poor performance of PEs. The main criteria adopted by the Bank to evaluate the performance of PEs is profitability. "PE earnings are generally low; many run losses; often these losses are of a a large magnitude. Far from contributing to government revenues, African PEs have more regularly become a heavy burden on already strained budgets" **(Nellis, 1986).** But, as we saw in chapter one, profitability is an irrelevant indicator, because the primary objective was socio-economic development and not profitability. As **Garner (1988)** argues, "PEs are not just a business". Similar points were made by **Ayub and Hegstad (1986); Ghai (1985); Nellis and Kikeri (1989),** among many others.

Nevertheless, even if we accepted profitability as a performance indicator, worldwide, there are several examples of profitable and well-managed PEs. Examples from DCs include: The Tea Development Authority in Kenya, Telecommunication Authority in Ethiopia, CVRD in Brazil, Hindustan Machine Tools in India-just to mention a few **(Shirley, 1983; Ayub and Hegstad, 1986; Nellis, 1986; World Development Report, 1988).**

There remains, however, a considerable number of chronic loss-making PEs. But why? In the words of **Nellis (1986),** "The reasons for this are several: poor initial investment decisions and inappropriate pricing policies top the list ... African PEs tend to be undercapitalised - high debt/equity ratios are the norm. Large amounts of working capital are tied up in inventories and especially receivables. Governments fail to pay PEs for the goods and services they provide .... overstaffing, political interference .. unclear objectives .. inadequate incentives for good managers ...".

A few comments are necessary before we move on to examine the suggested "enduring solution". First, almost all these factors are controlled by the government and hence poor performance should be attributed to the government policies, rather than internal inefficiency of PEs. As **Garner(1988)** argues "In so far as PEs have failed, it is a failure of governments rather than the institution of a PE itself". Second, although generalisation may be harmful, in many DCs, price controls apply to both public and private enterprises. Third, the "unclear objectives", "inadequate incentives", and "overstaffing" could be rectified through internal reforms without privatisation. Indeed, the evidence from Pakistan and South Korea clearly demonstrates that such an alternative is possible, and could improve performance. Fourth, political interference in most DCs takes place over both sets of firms, and there is no conclusive evidence that privatisation would contain such intervention in the case of joint ventures or the privatised public utilities **(Likiermann, 1984; Steel 1984).** Fifth, the claims that PEs have "high debt/equity ratios" is not at all clear, because there is no precise definition for these terms as they apply to PEs - both are provided by the state. More important, the debate on the effects of capital structure on performance is far from conclusive in the literature **(Bromwick, 1976).** Sixth, "undercapitalisation" was solely caused by failure of governments to pay PEs the goods and services they provided, the higher input pricess arising from their obligations to use local resources, overstaffing for political purposes, and the fact that PEs were often required to build roads, schools, hospitals, and other social obligations.

Finally, the poor initial investment decisions argument is difficult to accept, because the primary objective was socio-economic development, in particular rural development.

Indeed, any government that neglects its responsibility towards rural areas is bound to face serious difficulties, sooner or later. The influx of rural population to urban areas that characterises many African countries today provides a powerful demonstration **(Ghai, 1985)**. In the Sudan, for example, out of an estimated total population of 23 million, some seven million were estimated to have migrated to urban areas, mainly Khartoum. In addition, a civil war is currently taking place, and one of the reasons is the so-called "unbalanced development". Indeed, even in the UK, **Bishop and Kay (1989)** assert that "In the debates over the privatisation of British Telecom, the issue of most concern to Conservative backbenchers was the continued provision of public telephone services in rural areas".

Nevertheless, it appears that the Bank initially ignored completely the politics of economic reforms and privatisation. However, experience shows that governments in DCs have been reluctant to implement the Bank prescriptions (e.g. devaluation, trade liberalisation, price rationalisation and public spending reduction), largely due to their socio-political consequences. Indeed, a newly emerging research findings suggest that implementation of economic reforms in all DCs has been very slow, due to political and administrative factors **(Whitehead, 1990; Gulhati, 1990; Thomas and Grindle, 1990; Hawkins, 1991)**. It is evident that the World Bank wants DCs to manage their economies as a corporation (i.e. on pure profit and loss basis) which is unrealistic at this stage of development, and the social-political costs are likely to be too high, in a context where political systems are far from stable.

In the end, although there is no conclusive evidence about the poor performance of PEs, privatisation was advocated as the only remedy to all the ills of PEs, in all DCs. "To rationalise the size of the sector, the Bank supports divestiture (in the form of liquidation, sale of assets, contracting-out ..) when such an action is expected to promote efficiency" **(Galal, 1990)**.

4.3 The World Bank Efforts

As of June, 1989, the Bank approved a total of 71 projects with privatisation components, of which "divestiture is a condition in at least 45 policy-based loans" (Kikeri, 1990). As table (4.1) reveals, two-thirds of these projects were devoted to Africa, which is due to "the existence of large, over-extended and loss-making PE sector, pressing public finances and debt pressure, ready market, greater Bank leverage in the region.." (Kikeri, 1990). The main objective of these loans was to provide assistance to formulate a privatisation plan, and a timetable for implementation (Kikeri, 1990). The Bank has also provided assistance to DCs to undertake restructuring measures prior to privatisation, such as financial and legal restructuring, alleviating the side effects of privatisation, and strengthening the government capacity to implement privatisation (Nellis and Kikeri, 1989).

Table 4.1
Number of Bank Lending
With Privatisation Components

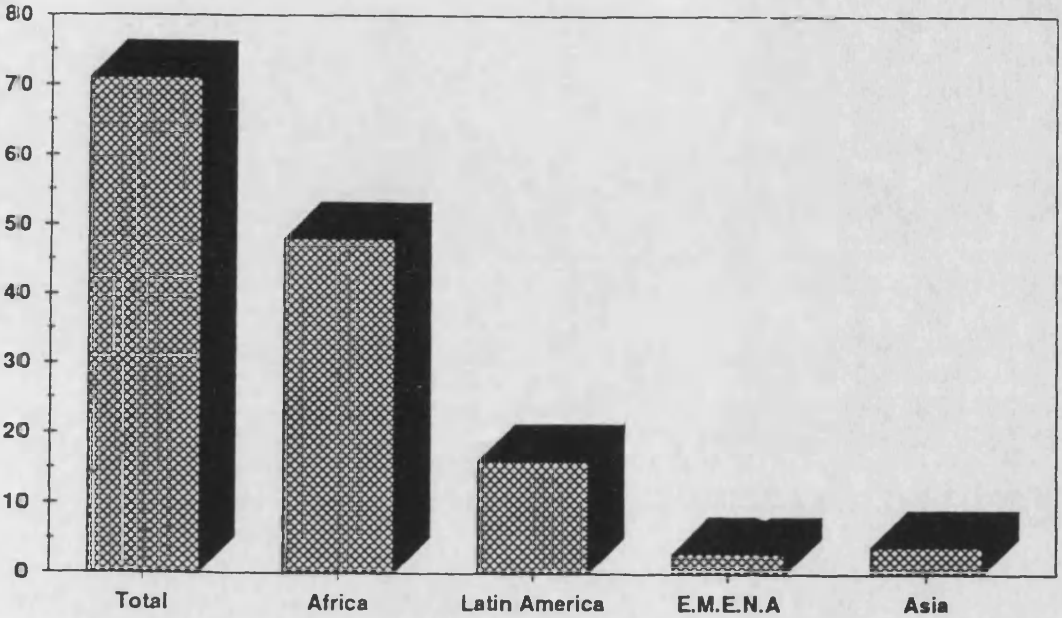
Region	Structural Adjustment Loans	Technical Assistance loans	PE[a/] loans	Others[b/]	Total
Africa	25	8	9	6	48
Latin America	11	3	2	0	16
E.M.E.N.A.[c/]	1	0	2	0	3
Asia	1	0	1	2	4
Total	38	11	14	8	71

a/ include PE Rationalisation/Rehabilitation loans; PE sector adjustment loans and institutional development projects.

b/ include (5) operations for industrial sector adjustment and (3) operations for private sector development.

c/ Europe, Middle East, North Africa.

Graph 4.1
Number of Bank Projects: By Region



Source: **Kikeri(1990),** "Bank lending for Divestiture", The World Bank working paper No.338.

However, this is not to suggest that privatisation was the only solution adopted by the Bank to cure the ills of PEs. The Bank has also provided substantial assistance to its member countries to improve the performance of PEs. As table (4.2) shows, a total of 147 projects in support of PE reform were approved by the Bank, as of June, 1989 (these include the 71 projects with privatisation component). Also, the Bank support for PE reform has been concentrated in Africa (about 54 percent of projects approved).

Table 4.2

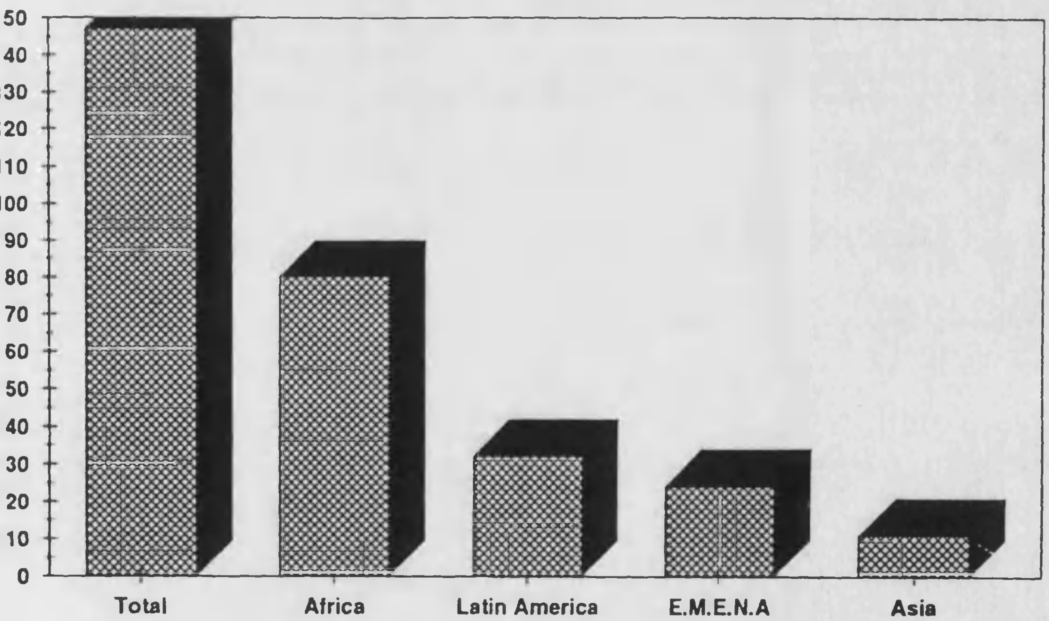
Number of PE Reform Projects

(as of June, 1988)

Region	Structural Adjustment Loans	Technical Assistance loans	PE loans	Others	Total
Africa	36	21	8	15	80
Latin America	16	10	2	4	32
E.M.E.N.A.	8	3	2	11	24
Asia	7	0	1	3	11
total	67	34	13	33	147

Graph 4.2

Number of PE Reforms: By Region



Source: **Ahmad Galal (1990)** "PE Reform: A challenge for the World Bank", World Bank working paper No. 407.

However, as far as the World Bank is concerned, all PEs should be privatised. "The most logical and expedient approach is to begin implementation with the divestment of commercial PEs operating in competitive markets, while leaving the more complex cases (quasi or full monopolies) for the second stage" **(Kikeri, 1990).** Indeed, even when PE reform was considered, this was usually followed by privatisation in its various forms. "This discussion closes with a review of alternatives to state ownership and the issues involved in liquidating and privatising SOEs **(Shirley, 1983).**

Moreover, the strong belief that PEs in DCs are over-extended, has spurred the World Bank to adopt "a sector-wide" approach as opposed to "case-by-case" approach **(Kikeri, 1990).** The author argues that, this approach has the following advantage, "it addresses the fundamental question of a reorientation of the state's role in economic activities". However, an increasing number of DCs have found this approach ill-suited, as it exceeded their economic and technical capacity, and more importantly it allowed the political, bureaucratic, and trade unions opposition to gather momentum against the policy, which the fragile political systems in most DCs may not be able to tolerate. But, it indicates clearly that the Bank is keen to speed up the privatisation process. This approach, however, might do more harm than good, simply because in their rush to privatise as soon as possible, assets may be under-valued, costly fiscal concessions granted, as well as protection from imports. As **Heald (1990)** argues "Unsubtle approaches by international organisations might well prove counter-productive, both in terms of how much privatisation actually takes place and the forms it takes". A similar point was made by **Shirley (1989).**

Nevertheless, despite this heavy involvement and support by the Bank to sell the policy, the outcome in terms of actual privatisations implemented has not been encouraging. However, it must be stressed that, the actual number of PEs privatised is not yet clear, even among the Bank staff. For instance, while **Kikeri (1990)** claims that "the record in terms of the number of divestiture is quite large in several countries", **Pfeffermann (1988)** asserts that "... the actual privatisations that have taken place as January, 1988, is disappointing". Nevertheless, **Kikeri (1990)** conceded that "although the number of PEs privatised is quite large, the magnitude of asset sales is relatively small". As noted earlier, the number of PEs in Mexico was reduced by 77 percent, which represented about only 23 percent of state equity in the PE sector. In Guinea, most of the privatisations that took place so far were small and non-operating plants **(Kikeri, 1990)**. In Senegal, not a single PE has been sold, though the state announced its intentions to roll back of the state since 1985 **(Galal, 1990)**. And the story is not different in Brazil, The Philippines, Pakistan, Turkey or Nigeria (see chapter 6). All these cases clearly indicate that governments in DCs have found it extremely difficult to implement privatisation.

This is largely because the Bank has assumed that there is a "ready" market to absorb the sale, an established private sector, a conducive business environment, a stable political system committed to the policy, and technical expertise to execute privatisation. In most DCs, however, the market is thin and inefficient, very few DCs have sophisticated merchant banks and technical advisers to handle this complicated policy, the number of business investors is often limited, and even those available might be ruled out on political grounds **(Ghai, 1985; Callaghy and Wilson, 1988; Heald, 1990)**. The government intervention in internal markets is typically quite excessive, and the legal framework within which business enterprises operate may not be at all clear. As **Likiermann (1984)** argues "The widespread corruption, the use of payments to ensure political support or that bureaucratic favour is granted are facts of life in many DCs, found at all levels and in both public and private sectors". The thinness of the capital market means that private sales are likely to be the predominant privatisation technique, which could lead to the concentration of wealth in the hands of the "undesirables" or foreigners, both of which are likely to pose serious political concerns. Similarly, the weak administrative capacity of most governments in DCs is likely to lead uneconomic deals, which defeat the very basic idea of the policy **(Shirley, 1988).** The case of Togo referred to earlier is a case in point. But, we strongly believe, Togo is not an isolated case. Indeed, it represents the actual situation in the vast majority of the African countries.

Nevertheless, the "conditionality" approach adopted by the Bank and other creditors and aid donors, which emphasised the implementation of privatisation as a condition to extend loans, appears to be ineffective as reflected by the wide gap between plans and actual implementation (see chapter 6). Yet, there are those who still insist on this approach as a means to speed up the privatisation process in DCs, such as **Cowan (1990)** who strongly recommends that privatisation should be made a condition to receive loans from the Bank, or debt rescheduling negotiations. This approach, however, is inappropriate, because when governments are in a desperate need for loans and aid, and most DCs are, they tend to accept any conditions, regardless of the existence of the necessary conditions for the long term success of the policy. In that case, however, the potential benefits of privatisation are unlikely to be realized. Privatisation is not an end in itself, but rather a means to achieve certain goals, such as economic efficiency. But, unless privatisation is supported by wider macro-economic reforms, its benefits are likely to be limited **(Shirley, 1988).** Indeed, there are claims that African countries are turning to privatisation, simply because they have no other alternatives. "African governments are turning to privatisation out of desperation, in an attempt to stem the drain on their budgets, even though they are aware of the experimental nature of this effort" **(Nellis, 1986).** Similarly, **Callaghy and Wilson (1988)** state that "This sense of confusion has allowed the 'been down so long, why not try it' syndrome to play a role in economic reform efforts in general and in privatisation in particular".

Nevertheless, these flaws have exposed the Bank to heavy criticisms from both outsiders and insiders. For example, The **Financial Times (16.9.1987)** argues that "aid agencies and organisations, such as the World Bank and the IMF, are falling over each others in their efforts to sing the praises of the private sector". Similarly, **Heald (1990)** warns that "International organisations will have to be extremely careful not to be seen as vehicles of either aggressive ideology or of foreign commercial interests". Indeed, even the Bank staff are unhappy about the Bank involvement in DCs. For example, **Kikeri (1990)** concluded that:

> ***"Since Bank support for divestiture may be construed as involvement in internal policies of borrower countries, and since the political and social conditions vary from country to country, a fundamental conclusion of this study is that the Bank cannot use a single design and implementation blue print for all countries. Bank operations should be flexible, paying careful attention in strategy formulation to prevailing country conditions".***

Another flaw about the World Bank approach is that, the first privatisation candidates must be profitable,"since viable and profitable PEs are likely to have the greatest chances of success" **(Kikeri, 1990)**. Similarly, **Cowan (1990)** states that "Ideally, the first privatisation candidates would be well-known, preferably successful PEs that have not required subsidies and have been operated by efficient, business-like behaviour". Clearly, there is an overlap here; simply because while the main argument against PEs is that they incur persistent losses, it is the profitable PEs that are targeted for sale. However, profitable PEs are generating sufficient earnings and normally do not constitute a budgetary burden. Indeed, a number of DCs have found it extremely difficult to justify the sale of revenue-producing PEs. Consequently, the PEs often selected for privatisation in DCs are the small, non-operating PEs. For example, **Kikeri (1990)** states that "In Senegal, the most interesting cases were excluded from the divestiture list". Similar treatments took place in Ghana, Guinea, Morocco and Tunisia **(Galal, 1990; Bouaouaja, 1989).**

Nonetheless, moving to phase two (i.e. public utilities), privatisation is likely to pose serious political, economic and technical concerns. As we saw in chapter 3, there is no objection to the privatisation of PEs operating in competitive markets, though the status of capital market in most DCs, casts doubts on the potential benefits of the policy. Nevertheless, the idea of exposing public utilities to the disciplines of market forces is hard to accept in the context of DCs, where the market is inefficient and uncompetitive. Indeed, even in industrial countries, notably the UK, the privatisation of these industries has drawn the attention of both politicians and academicians **(Rees, 1986; Harris, 1988; Kay and Thompson, 1986; Heald, 1990).** The point is that, the size of these organisations would hinder the efficiency of the market for corporate control, and in the absence of product markets, there is no reason to suggest that privatisation would enhance allocative efficiency. Indeed, even if there are some gains in productive efficiency, such gains might be retained by the industry, rather than transferred to consumers in terms of lower prices **(Vickers and Yarrow, 1988).** Moreover, the absence of sound reporting standards, a free media, a functioning Parliament, specialised cadre, and established, respected legal system, would render regulation at best difficult. Likewise, the internal market might be unable to finance the sale of such industries, and foreign investors might not be allowed to own "the commanding heights" of the economy.

Probably this is the problem with privatisation. As **Heald (1990)** points out, once the privatisation process starts, it becomes very difficult to draw the line between "appropriate" and "inappropriate" privatisations. Privatisation is appropriate when both the capital and product markets are efficient and competitive, where there are no administrative controls for doing business, and where the private sector is well-established **(Bishop and Kay, 1989).**

Nevertheless, in a bid to accelerate the flow of foreign investment into DCs so as to speed up privatisation, the Bank has established an agency called " Multilateral Investment Guarantee Agency". As its name implies, the main purpose of the Agency would be to provide a guarantee for foreign investors against non-commercial risks. Such risks, **Shihata (1988)** explains, would include risks to repatriate capital gains and dividends in any acceptable currency, risks of breach of contracts, and risks of political instability. These guarantees, **Shihata** claims, would be provided to both foreign investors and nationals who invest in their own country through capital repatriated from abroad. In addition, the Agency would provide advisory services and technical skills needed to plan and implement privatisation in DCs.

Similarly, the International Finance Corporation (IFC), the Banks affiliate promoting private sector development in DCs, is also involved in providing technical assistance to DCs, as well as acquiring shares in privatised enterprises. The World Bank itself has never acquired equity in privatised industries **(Nellis and Kikeri, 1989).** Moreover, the IFC also introduced a new arrangement called "Guaranteed Recovery of Investment Principal" (GRIP), so as encourage private investment in DCs. The arrangement works as follows: the prospective foreign investor provides the capital to be invested in a certain country, the IFC invests the capital in its name, and assumes full responsibility for the loss of principal, on an income sharing basis. At the end of an agreed period, the investor has the choice either to assume full ownership and control of the investment, or to take his principal and depart costlessly **(Silkenat, 1988).**

In the end, despite the heavy involvement and support by the Bank, privatisation in DCs appears to be facing considerable difficulties. As **Kirkpatrick (1988)** argues ".....the significance of privatisation as a policy option for LDCs has been exaggerated. Denationalisation is likely to be difficult to achieve, its potential benefits often appear to be limited, and its adoption may involve political costs". Similarly, Nellis (1986) argues " A basic fact must be faced : Even if every contemplated or conceivable African PE divestiture candidate were sold or liquidated in the near future there would still remain in every sub-saharan country a substantial PE sector". As a result, a large number of PEs are expected to remain under public ownership for a considerable time to come, and hence internal reform must be given a higher priority.

Now that having identified the rationale for privatisation in DCs, a question arises regarding the scope and pace for privatisation in DCs, and the Sudan in particular. This will be the focus of chapter 6, after we outline the research methodology.

Part Two

The Fieldwork

Chapter Five

Research Framework, Methodology, and Methods

Introduction

This chapter will be composed of two main sections. In the first section, we shall outline the research objectives and the research framework. The second section will be devoted to the research methodology, and the research methods used to collect the data.

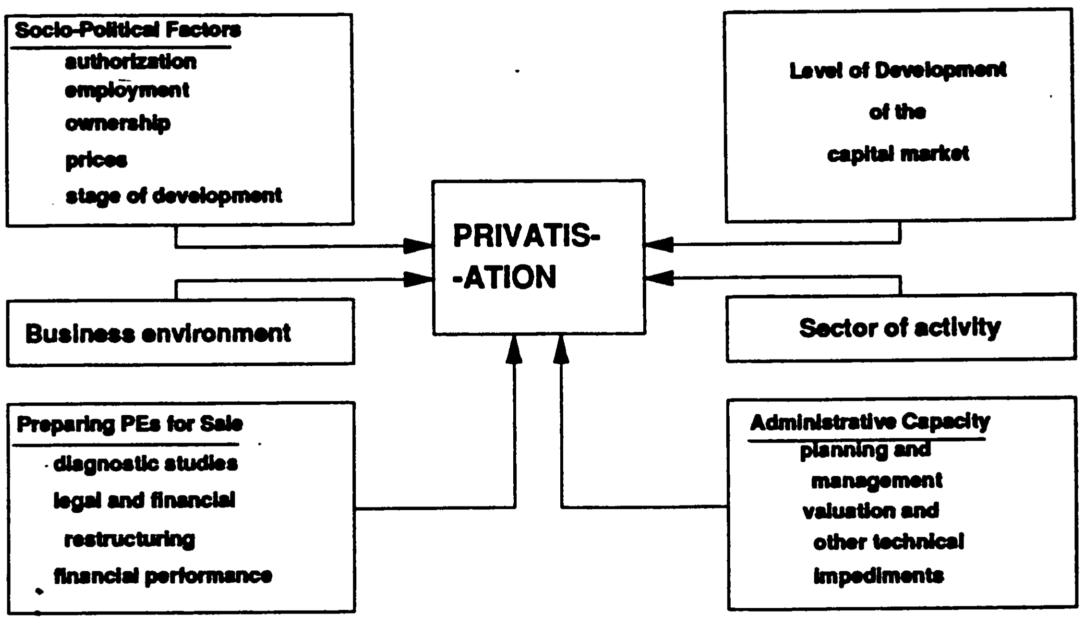
Experience shows that, governments in most DCs have found it extremely difficult to implement privatisation (see chapter 6). Moreover, the available evidence tend to focus on the number of PEs privatised in DCs, rather than on the objectives of privatisation, the size of PEs privatised, or the implementation process. As **Kikeri (1990)** argues "Information on the characteristics of divested enterprises are quite sparse, and systematic evaluation of the financial and economic impact of ownership and/or management changes are lacking". This is largely because, the available studies, in particular those carried out by the World Bank, were based on "desk studies", rather than empirical investigation at the enterprise level in different DCs **(e.g. Vuylsteke, 1988; Nankani, 1988; Candoy-Sekse, 1988; Kikeri, 1990)**. However, PEs in different countries, and different sectors in the same country are likely to encounter different problems, which require different solutions. As **Heald (1990)** argues "The proper approach to discussing the future of the public sector in particular countries is to adopt a tough and questioning attitude towards the performance of existing public sector organisations".

5.1 Research Objectives and Framework

The objectives of this research are three-fold. First, to explore the scope of privatisation in the Sudan, and to identify the similarities and differences with the experience elsewhere (chapter 6). Second, to investigate the structure, performance and major problems of PEs in the Sudan, as well as the measures devised to improve performance. Towards this end, various case studies at both macro and micro levels were investigated by the researcher (chapters 7-11). The third objective will be to investigate the constraints and the relevance of privatisation to the Sudan. To achieve this objective, specific contingent variables, outlined in the model below, were investigated at the macro level (chapters 12 and 13).

Thus, the purpose will be to explore the scope, constraints and the likely benefits of privatisation in the Sudan, and to see whether the Sudanese experience is consistent or inconsistent with the experience elsewhere. Unlike those who want to " export" the privatisation "model" of industrial countries (e.g. Walters, 1985; Young, 1986), we shall approach the policy from a contingency framework (see below). The logic is that, countries differ widely in terms of stage of economic development, level of development of capital markets, political, legal and economic systems. These differences, in turn, are likely to influence the decisions to privatise, what and how to privatise. Based on the literature survey reported in the previous part, we developed the model, which incorporates the variables that are likely to influence the scope and speed of privatisation in DCs.

Model 5.1
Contingent Privatisation Model



Definition of Variables

5.1.1 The capital market

It is here argued that, the level of development of the capital market, the number of local investors, and the capacity to mobilise private resources in any country are critical to the success of privatisation, and key determinants of the privatisation techniques. In industrial countries, (e.g. the UK,)where the capital market is well-developed and properly regulated, and where the number of business investors is large and the level of education is high, privatisation was carried out, in the main, through a public offering of shares. But, in a context where the capital market is too-thin or non-existent; where there is no tradition of share ownership, and the public confidence in the financial system is rather weak, a public offering of shares is unlikely to be a predominant privatisation mechanism. Instead, private sales to local and foreign investors are likely to be the predominant privatisation techniques. Similarly, the small, inefficient and uncompetitive internal markets are likely to inhibit large-scale privatisations, as well as the effectiveness of the market for corporate control.

5.1.2 Socio-Political Factors

The socio-political factors in any country are likely to influence the decision to privatise; what to privatise, and may even determine how to privatise. For example, if authorisation is required in a democratic manner, the process is likely to be more complex and time-consuming, whereas in a one-party system the authorisation process is likely to be easy and simple. The degree of political stability in a country would influence the government's ability to mobilise private resources and the flow of foreign investment.

Similarly, the government objectives could determine how to implement privatisation, i.e. the appropriate technique.

The stage of economic development could influence the scope and pace for Privatisation. In most DCs, the issue of rural development is still high on the national agenda, which may not be the case in industrial countries. Moreover, in the absence of the income support schemes of industrial countries, and in a context where job opportunities in other sectors of the economy are bleak, employment issues are likely to be far more complicated. Likewise, concentration of wealth, dramatic rise in consumer prices, the role of foreigners and ethnic minorities are likely to be topical issues in DCs. In industrial countries, however, ownership pattern may be of secondary importance, and the well-established regulatory systems and consumer protection groups could influence prices.

5.1.3 Preparing PEs for sale

The financial performance of PEs selected for sale is likely to determine the success of the policy. Profitable and potentially viable enterprises are likely to attract buyers, while loss-making and unviable PEs are unlikely to be sold in their present financial condition, and hence must be prepared for sale. In that case, detailed studies would be needed to collect basic data on the financial and technical position, so as to determine the nature of the restructuring needed. Such activities, however, cost money and require variety of skills (e.g. accountants, lawyers, technical experts, and investment analysts), which may not available locally. The financial performance could also influence the selection of the privatisation mechanism. For example, to qualify for a public offering, the privatisation candidate must be profitable or capable of being turned around. In short, preparing PEs for sale would cost money, takes time, and requires qualified experts. Thus, if the skills needed are in short supply and finance is meagre, preparing PEs for sale is likely to be a major constraint.

5.1.4 Administrative Capacity

This refers to the government ability to formulate, organise and implement a viable privatisation plan, and establish an adequate regulatory mechanism. As noted above, privatisation requires a variety of skills to plan and execute the policy. However, the newness of the policy suggests that challenges facing DCs are formidable. The use of external advisers, on the other hand, is likely to face resentment from the bureaucrats and political opponents.

5.1.5 The Business Environment

In industrial countries, a firm that is privatised is likely to move to a well-established business environment, where there are no administrative controls and where there are challenges. In DCs, however, the available evidence suggests that government intervention in internal markets is typically excessive (see chapter three). However, it is here asserted that, the long term success of privatisation depends entirely on the political, legal and economic environment within which enterprises operate.

5.1.6 Sector of Operation

The sector in which a PE operates often influences the decision to privatise and how to privatise. Smaller PEs operating in competitive markets are often easier to privatise than the public utilities, such as the rail, electricity and water industries. The authorisation to privatise the latter concerns is likely to raise serious political problems, the internal market might be unable to finance the sale, and their size would require the establishment of a regulatory system in order to protect consumers with all the problems of regulation. Indeed, even in the UK, the privatisation of such industries has drawn heavy criticism, and regulation proved to be rather difficult, not least because of the information problems **(Rees, 1986; Bishop and Kay, 1989; Vickers and Yarrow, 1989).** Thus, if that was the case in the UK, it could be fairly argued that, the privatisation of public utilities is expected to be a complex and time-consuming process in DCs.

5.2 Research Methodology

The choice of a research methodology depends on a number of factors, such as the nature of the research topic. Table 5.1 developed by **Robert Yin (1983)** outlines the factors that influence the choice of a research methodology, and shows how to select the appropriate strategy.

Table 5.1

Relevant Situations for

Different Research Strategies

Strategy	Form of Research Question	Requires Control over Behavioral events	Focus on Contemporary Events
Experiments	Why?, How?	Yes	Yes
Survey	What?, How many?, How much?	No	Yes
History	How?, Why?	No	No
Case Study	How?, Why?	No	Yes

Source: **R.Yin (1983), "Case Study Research", Sage Publications**

Similarly, **Jaggi (1973)** categorises research in DCs as :

(1) *descriptive research which provides information regarding the current state of the art of the phenomenon under investigation. Such studies, Jaggi claims, are usually exploratory in nature that attempt to define the status of a particular subject matter.*

(2) *conceptual studies in which a model or a framework is developed and then tested. The data required for testing the model comes from the descriptive studies.*

(3) *hypothesis-testing studies in which a set of hypothesis are developed, and then tested by data obtained from the field.*

This study is an exploratory study aimed primarily to investigate the scope and relevance of privatisation to the Sudan, the other measures initiated to improve the performance of PEs, and the structure, performance and problems of PEs in the Sudan. It is thus meant to explore and explain a real situation. To achieve this objective, the study will provide several case studies from various levels, i.e. the enterprise level, sectoral level and macro level.

For this purpose, a case study is defined as "an empirical inquiry that investigates a contemporary phenomenon within its real life context when "what", "why", and "how" questions are being asked, when the boundaries between phenomenon are not clearly evident, and in which multiple sources of evidence are used" **(Yin, 1983).** In addition a comparative analysis of the different privatisation cases was planned, in terms of comparing the mechanism used, obstacles, concessions granted, etc. These two strategies are in no sense a deficiency, but rather desirable. For instance, on the methodological integration in social sciences, **Warwick (1973)** argues that "The past two decades have seen a growing recognition for the need for merging more than one or two research methodologies in the same study". Similarly, on the integration between case studies and surveys, **Diesing (1973)** raises the following questions," how distinct are these methods after all ? Are they parts or variants of the same method or are they in the process of combining into a new method?" Nevertheless, the comparative analysis method was deleted in the field, simply because we found that privatisation is still at its infant stage, and no actual implementation has occurred. As a result, we concentrated on the efforts made to reform PEs, and the business environment so as to assess the relevance of privatisation to the Sudan.

5.3 Research Methods

The main research methods used to collect data for this research were interviews. **Maccoby and Maccoby (1954)** define interviewing as "Face-to-face verbal interaction, in which one person (the interviewer) attempts to elicit information or expressions of opinions from the interviewee". The main advantages of interviews are: (i) flexibility. Referring to this flexibility, **Berner et al (1985)** claim that "because interviewing as a research tool is very flexible, it can deal with a variety of subject matters at different levels of detail or complexity". (ii) the researcher can cross-examine evidence, and come back to fill in gaps and seek answers to emerging issues.

The method, however, is not without limitations. The most important is that informant's statements may not be free from bias, and hence a great care needs to be exerted to check their reliability. A second limitation is that, interviewing is normally costly and a time-consuming process. Indeed the greatest difficulty we faced in the field was how to get hold of the person required for interviewing. In the Sudan, formal appointments are totally unreliable. It is not at all uncommon to fix an appointment, and you then discover that the official is not available in his office at the specified time, or in a meeting. The only solution is to try again. In fact, in most cases, we had to look for informal ways for arranging a meeting. The unreliability of the communication systems in the Sudan further complicate the problem.

Types of Interviews

There are three main approaches for collecting data through interviews (**Misher, 1986; Sudman and Bradburn, 1982; Khan and Carrell, 1957**). These are:

(1) Informal Conversational Interviews

(2) General interview guide approach

(3) Standardised open-ended interviews

(1) Informal Conversational Interviews

This approach is often used when the researcher has no idea of what he can learn from the discussion with the persons involved. Therefore, there are no predetermined questions or issues, rather they emerge from the conversation with people, and the researcher has to persue information as they emerge. The issues raised with different people may be quite different, and the conversation can be held more than once depending on the research progress and the emerging data.

The advantage of this approach is that, it allows the interviewer greater flexibility and freedom to respond to individual differences, and situational changes. On the other hand, it requires greater conversational skills, it is time-consuming, and the analysis of data may be difficult, since different people are asked different questions.

(2) General Interview Guide Approach

This approach requires the researcher to prepare in advance a set of questions or issues to be raised with the interviewee. Such questions, however, can be asked in any order as the interview progress. The researcher is free to conduct the interview within a specific topic prepared in advance, and to sequence the questions according to the emerging evidence.The main advantages of this approach is that, the discussion will be more focused and relatively systematic. However, as with the first approach, it is time-consuming, and the analysis of data may not be easy.

(3) Standardised Interviews

Under this approach, the questions are carefully set in advance, and in a certain order. Moreover, any clarification needed is included in the questionaire. Thus, the interview is systematic across all participants. Therefore, the data analysis is more easier, since all participants will be asked the same questions, and in the same sequence. Its main weakness, on the other hand, is that it lacks flexibility, which prevents the interviewer to follow up issues that emerge and which were not included in the questionaire.

In the field, we found the three approaches very useful , and consequently they were all used. The first two approaches were useful in the exploratory phase about the economic and legal environment within which PEs operate; the objectives, limitations, and outcome of the reform process; and the response to privatisation. So, they were used with the Auditor General, the Attorney General, the officials in the sectoral ministries and the MFEP, The World Bank (Khartoum), the Sugar and Agriculture Rehabilitation Projects. The third approach was used to investigate the structure and performance of PEs, and the measures taken to implement privatisation. Therefore, it was used with the managing directors and functional managers of six PEs, the Pricing and Costing Unit, the Industrial Research and Consultancy Centre, and the Minister in charge of privatisation.

The Wording of Questions

The objective of an interview is to collect reliable data so as to answer the research questions. However, as **Payne (1951)** argues "interviewing is an art". Therefore, there is no one best way to ask the questions, and no universal way of conducting an interview. Yet, questions for interviewing purposes should have the following properties : (a) open-ended. That is, questions that allow the interviewee to answer freely in his own words. The interviewer should not ask leading questions in order to obtain certain answers. (b) Neutral. That is the interviewer should not form preconceived ideas about the topic under investigation, should not express his own views, and must take more than give. (c) Clear and singular. That is, the questions should not contain more than one idea, as this normally leads to confusion for the interviewee. If any clarification to the question is needed, must be provided in a non-leading manner. In this regard, **Patton (1980)** suggests conveying the notion that "failure to understand is my fault".

Apart from the problem of clarifying the questions, there are also the problems of inadequate answers, refusal to answer, and incomplete answers. Inadequate answers are those unclear answers for one reason or the other. At times, the interviewee may firmly refuse to answer, in which case his refusal must be accepted. But, if the refusal is "half-hearted", the interviewer may use other means to persuade him, such as assuring him that the data obtained will be dealt with in absolute secrecy. At other times, the answers might be irrelevant or incomplete. In that case, the question may be repeated, or the interviewer could ask questions, such as "can you tell me more", "can you think of other reasons", "why", "in what way".

Controlling the Interview

During the interviewing process, the interviewer must exert a considerable effort to keep the interview under control. This is achieved by knowing precisely what he wants to find out, and by asking the right questions. Moreover, he must encourage and motivate the interviewee to answer in an adequate and complete manner. "This requires from the interviewer continuous efforts to reduce or eliminate the negative forces, or barriers to communication" **(Khan and Carrell, 1957).** Understanding the purpose for the data collection may help in this respect, and hence the initial statement should clarify the purpose in a simple, honest and understandable manner.

Recording the Interview

The primary data of interviews are the statements made by the interviewees. Therefore, such statements need to be recorded as they were said. There are three main ways of recording interviews. The first is tape recording, which provides the best recording. Therefore, the reason for using tape recording should be made clear, and the interviewee should be allowed to stop it whenever he feels so. The second to is to write every word said during the interview. This is a second best solution, since it distracts the interviewer from following up data as they emerge. That is, writing all the time makes it difficult for the interviewer to pick up rich information and persue them further. Third, is note-taking during the interview, and write the report later. Although it alleviates the shortcomings of the second method, it suffers two main deficiencies. (a) There is the problem of forgetting what exactly interviewees said. (b) Interviewees may not feel at ease, on the grounds that, what they are saying is not important.

In our case, the use of tape recording was firmly rejected by all the Sudanese, due to the political nature of the topic. The second method was not used, due to the problems mentioned above. As a result, we found it more useful and effective to take notes during the interview, and write a report later (in the same day). To avoid embarrassing interviewees that what they are saying is useless, we used to tell them in advance that we are not writing all the time because of the problems encountered. Indeed, almost all interviewees were very understanding after such explanation.

Summary of Rules

Berner et at (1985) summarise the interviewing rules as follows:

(1) Rules of asking questions

- Read the questions as they are worded .
- Read slowly.
- Use correct intonation and emphasis.
- Ask the questions in the correct order.

(2) Rules for dealing with answers

- Record exactly what respondants say.
- Do not answer for the respondant.
- Show interest in the answers given by respondants.
- Make sure you understand the answers adequately.

- Make sure each answer is adequate.
- Do not show approval or disapproval on any answer.

(3) Rules for interacting with respondants

- Probe only non-directively.
- Clarify where necessary and repeat the question, if needed.
- Do not give directive information about question meaning.
- Do not give information not related to the question.
- Thank respondants from time to time for cooperating.
- When given inadequate answers, try to obtain further information by means of non-directive probing; repetition of the question or non-directive clarification.
- When refusal is "half-hearted", that is although refusing still provides a basis for discussion, try to obtain an answer by clarifying non-directively, probing non-directively or repetition of the question.

Source : Berner et al (1985), "Research Interview"

5.4 The Fieldwork

The fieldwork for this thesis lasted for about six months (from mid-February, 1990 to mid-August, 1990), and was successful to a large extent. By the time we arrived in the field, the Sudanese government started publicising its intentions to get rid of all loss-making PEs. Two months later, the Minister of Industry issued an advertisement in local newspapers offering six industrial PEs for sale, and inviting local investors to submit their bids. A couple of weeks later, a master privatisation plan was announced by the government as part of a three-year "Economic Salvation Plan". Therefore, privatisation was a hot issue at the time, and almost all the officials I have spoken to were very enthusiastic to discuss; explain and criticise.

Upon arrival in the field, we started by reviewing the resolutions and recommendations of the "National Economic Conference", organised by the incoming military government, in which adherence to free markets and rolling back the frontiers of the state were recommended, and later adopted as the main economic policy of the new regime. Having reviewed these documents, we met a number of participants in that conference, and in particular the committee in charge of the public corporations (their names and addresses were listed in the document).

A few weeks later (March 12-15, 1990), a workshop on investment promotion in the Sudan was arranged. The workshop provided a golden opportunity for the researcher to meet local businessmen; government officials and foreign investors, mainly Arabs, to discuss the investment climate; opportunities; obstacles and their willingness to invest in the Sudan. Nevertheless, it then became clear to me that the government was serious in implementing the recommendations regarding the state participation in the economy, and was heading towards privatisation. That is not surprising, however, because the military government now in power, is supported by the right wing "Muslim fundamentalists", who strongly believe in the principles of private ownership. They argue that "God had created human beings unequal"; "there are those who are rich and those who are poor solely by the act of God"; and "it is God who gives and takes". Therefore, any attempt to equating people through socialism or any other mechanism, is totally prohibited in Islam. Without getting into the different interpretations and schools of thought between those strictly adhering to this line of thinking, and those who claim that there is socialism in Islam, broadly speaking this is the stand of the present military regime, supported by the National Islamic Front (a political party in the Sudan).

The next step was to conduct interviews with the pertinent technocrats, previous and current ministers on the structure and performance of PEs; the nature and outcome of the various reform efforts; and why and how privatisation. As we pointed out earlier, one method that was absolutely useful in conducting these interviews was personal contacts. In almost all cases, either we got to know the official in advance or looked for some one who knew him and let introduction through a third party be made. In some cases, the graduates of the Gezira University, where the researcher works, have facilitated the introduction process. In addition, we had two formal letters, one from the employer (Gezira University) and the other from my supervisor. At the beginning, we used to contact the officials through these formal letters, but that proved to be inadequate and ineffective, as we were met, in the main, with a very hostile attitude. However, the same person when approached informally, became very friendly and cooperative. The supervisor's letter (in English), was very useful for the World Bank, the foreign consultancy firm carrying the diagnostic studies of ten PEs in the Sudan (see chapter 11), and even the Sudanese who were graduated from the Sudanese universities (medium of instructions in the Sudanese universities is English), or had been trained in the UK.

Conducting interviews and data collection in general is a costly, time-consuming process. But, in my case it was made somewhat easier, because I had a car in Khartoum, which facilitated my movements greatly. Public transport in the Sudan is totally unreliable, due to the frequent oil and spare parts shortages. We managed to obtain a weekly quota of oil, albeit, on an informal basis.

All in all, about 24 working weeks (6 days a week), were spent in the field, in which the following government departments and international organisations were visited:

(1) Public Corporation Department, Ministry of Finance and Economic Planning.

(2) Public Corporation Bureau, Ministry of Industry.

(3) Costing and Pricing Unit, Ministry of Industry.

(4) Industrial Research and Consultancy Centre.

(5) The Rehabilitation Units for sugar; textile and agriculture.

(6) Bank of Sudan and two stated-owned commercial banks (Bank of Khartoum and the Sudan Commercial Bank).

(7) Investment Secretariat Bureau (Ministry of Finance),

(8) Imports and Exports Units - Ministry of Commerce, Supply and Cooperation,

(9) The Taxation chamber,

(10) The Auditor General Chamber,

(11) The Attorney General Chamber,

(12) The Sudan Chamber of Commerce,

(13) Ministry of Labour,

(14) The Minister of Industry, as well as a previous minister who proposed the legal restructuring of the industrial enterprises in the early 1980s.

(15) The Chairman of the Public Investment Authority (ministerial status and coordinator of the interministerial committee in charge of privatisation.

(16) Managing Directors of two long-standing privatisation candidates (Rea and Kirikab sweet factories).

(17) Managing Directors, Financial and Personnel managers of:

- Sudan Airways Company,
- Sudan Telecom Corporation,
- Guneid Sugar Company,
- Friendship Textile Company,
- Gezira Scheme,
- Duty Free Shops Corporation.

(18) Managing Directors of two private firms (International Tyre Manufacturing and Distributing Company, and the Sudan-Arab oil and soap company).

(19) Managing Director of the Industrial Production Corporation (1971-1976).

(20) The Accountancy Institute, The Management Development Centre and the Sudan Academy for Administrative Sciences.

(21) The foreign consultancy firm, BMB (Dutch) and Cooper and Lybrand (British).

(22) The World Bank Resident Representative (Khartoum), and the World Bank Headquarters in Washington (the latter was made possible by a grant from the British Council).

In most of these places, officials were visited more than once to fill in gaps, or to check puzzling questions that emerged during the investigation process. Around 80 percent of the interviews and discussions were conducted in "Arabic", and later translated into "English" by the researcher. Admittedly, part of the respondant's statements must have been affected in this translation process, but not to the extent that it changed the meaning entirely. But nevertheless, had it been in English, it would have reflected the actual words and behaviour of the interviewees. To minimise the possibilities for misunderstanding, we used to translate immediately to the respondant what he has said, before proceeding to the next issue. For the Sudanese who were graduated from the Sudanese Universities or had some sort of training in the UK or the U.S.A., we found no problem or embarrassment in translating what he said. For those graduated from non-English-speaking universities (e.g. Arab and Eastern Europe) repetition of the respondants statements in different terms was used to clarify the meanings.

A second valuable source of data was the workshops organised by the foreign consultancy firm carrying out the diagnostic studies of 10 PES in the Sudan. Before and after each study, the consultants used to hold a workshop, in which all concerned parties (the enterprise under investigation, and representatives of sectoral ministries and the Ministry of Finance) were invited. At the start, they would summarise all the previous studies and reports regarding the PE in question, or those related to its sector of activity, and then to formulate a plan for the study. At the end of each investigation, the consultants also used to arrange another workshop to discuss their findings with the concerned parties, before submitting their final report. The researcher was invited to attend three of these workshops and participate in the discussions. These were: Karima Fruit Canning Factory; Guneid Sugar Company and the Sudan Telecom Corporation. By all measures, these meetings, and the brief discussions with the consultants before and after each workshop, were very useful and fruitful.

A third source of data were the published reports by the government; the Auditor General; the rehabilitation units; the World Bank; and a host of previous reports. In a few cases, public seminars were arranged by the students union, in which cabinet ministers were invited. Also, the media (local newspapers, radio and television) provided a rich source of data.

A fourth useful source of data were the lengthy, in depth discussions with the World Bank officials in Washington, which was made possible by a grant from the British Council. As we pointed out in chapter four, the World Bank, among other international organisations, has been addressing the issue of PEs in DCs for quite some time, and has published a stream of reports on privatisation in DCs. The visit, therefore, provided a golden opportunity for the researcher to interview the World Bank officials in various sections (e.g. East Africa department, the PEs management division and the private sector development department), regarding the state of the art in the Sudan, and the privatisation experience in DCs. It was by all measures a very useful experience, and the Bank staff were extremely helpful, cooperative, and provided me with first-hand information. Apart from the interviews, we managed to collect valuable, up-to-date publications about privatisation and PE reform in DCs.

Finally, the researcher also spent a good time in different PEs observing behaviour in their natural setting, and talking to workers and lower level managers. The primary purpose was to gain insight into the internal operations of PEs, and to find out what the employees think of their organisation (i.e. the style of management, productivity, performance, etc) and how they perceive the government policies, that is privatisation. In addition, we visited two private firms, primarily to explore the similarities and differences with PEs in terms of worker's behaviour at work; the working conditions; and the major problems faced by the private sector in the Sudan.

5.5 Research Limitations

Probably the most serious limitation of this study, is that the researcher was unable to capture the views of the politicians and trade union leaders, who were banned by the incoming military government (in mid-1989). By the time the fieldwork was conducted, almost all political and trade union leaders were either under arrest, or in hiding, and even those left free, we were advised not to approach them. Ideally, it would have been more informative had the opposing views been explored to assess the continuity of the policy (i.e. would political opponents be abide by the policy, or would they reverse it if they come to power).

Another limitation of this research is that, in most cases, there was a complete lack of records and documents regarding the major economic policies adopted. For example, the only document that we found regarding the legal restructuring of industrial PEs, was a "two-lines" Presidential decree issued in 1981. Therefore, the only source of information were the officials who were present at the time, and who participated in implementing the Presidential decree. But, due to the very high turnover in the civil service, in most cases, these officials were not available for interviewing, and we had to trace them and find them if they are still in the country. Moreover, due to the sharp decline in real incomes, the deteriorating working conditions (e.g. power cuts; lack of transport, etc), and the job insecurity caused by the indiscriminate dismissals on political grounds by the new regime, the civil servants, including PE managers and staff, were so demoralised and disinterested. Therefore, getting the proper data and the appropriate officials for interviewing was not at all an easy task.

5.5 The Research Design

The research design was meant to be as loose as possible so as to allow for developments in the field. As **Diesing (1973)** put it "too strict a design ties the research down and inhibits changes in concepts that are characteristics of the fieldwork". For example, initially we intended to use the comparative analysis method to supplement the case study strategy, but, in the field the method proved to be irrelevant, and was consequently deleted (see above). Moreover, before conducting the fieldwork, the researcher had no idea about which PEs to investigate, nor the individuals to be interviewed. However, this is not a deficiency in any way. Indeed, as **Glaser and Strauss (1967)** argue "In a research carried out for discovering theory, the sociologist can not cite the number and types of groups from which he collected data until the research is completed".

Chapter Six

Privatisation Experience in the Sudan and other DCs

In the Sudan, privatisation has been on the national agenda for almost a decade, but no major progress has been made. In mid-1990, however, the incoming military government announced a master privatisation programme for a wide range of PEs, under its "Three-Year Economic Salvation Plan" (1990/91-1993/94). The purpose of this chapter will be to outline and discuss the early privatisation initiatives, the current privatisation plan, and the privatisation experience and implementation issues in other DCs.

This chapter will consist of three main sections. In the first section, we will outline and discuss the case of two sweet factories, which the authorities were trying to sell for almost a decade without much success so far. The second will be devoted to the recent privatisation plan, viz: the privatisation candidates, the management of privatisation, and other implementation measures taken. In the final section, we will investigate the privatisation experience and the implementation constraints in the Sudan and other DCs. The major obstacles to the current Sudanese privatisation plan, however, will the subject of chapters 12 and 13.

6.1 The Early Privatisation Initiatives

6.1.1 Introduction

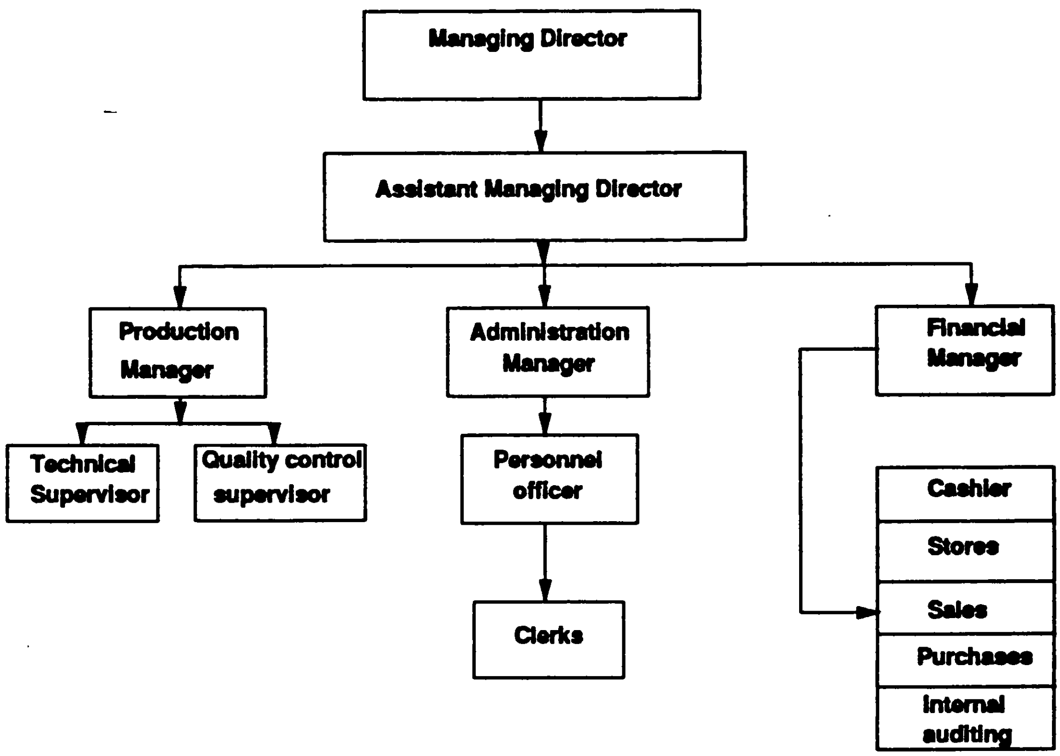
From 1979, the Sudanese authorities have been trying to privatise two sweet factories (Rea and Kirikab), without much success so far. In mid-1986, the factories were closed down, and a decision was taken by the Council of Ministers to denationalise them. However, no decision regarding employment was taken until October, 1989. At present, all the staff of the two factories are laid-off, and only a "care-taker" management was retained until ownership is finally transferred to the new owners. In what follows, we shall outline and discuss the organisation structure of the industry; its financial performance; and the main steps taken towards its privatisation.

6.1.2 Organisation Structure

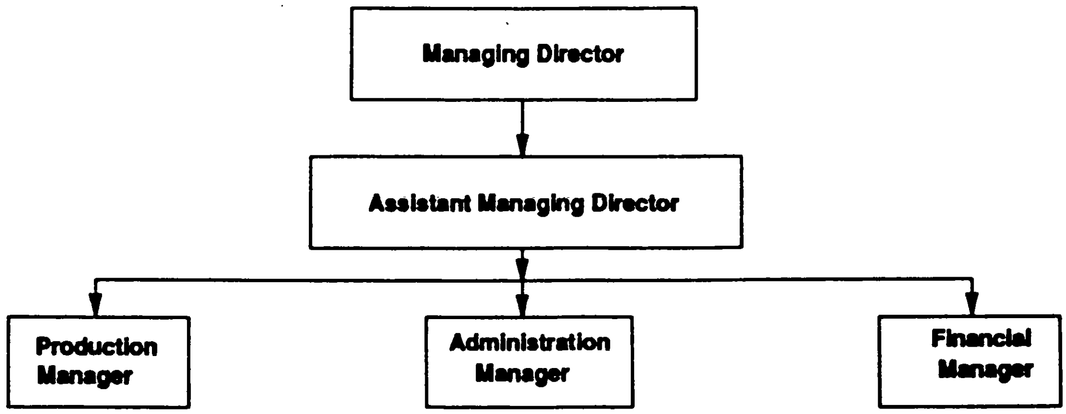
Both factories were owned by a Greek family, and came under public ownership through nationalisation in 1970, but were never returned back to their original owners. Nevertheless, following nationalisation, both factories were placed under the control of the Industrial Food Corporation, and when the sectoral corporation was abolished in 1981, as part of the legal restructuring process (chapter 10), they came under the direct control of the Ministry of Industry. The following charts depict the organisation structures of both factories.

Organisation Structure :

(1) Kirikab Sweet Factory



(2) Rea Sweet Factory



As the above charts reveal, both factories were headed by a Managing Director assisted by functional managers. As we shall see in chapter 9, this is a typical organisation structure found across all PEs in the Sudan, where the authorities have adopted a unified organisational set up regardless of the environment in which the enterprise operates, the technology used, its size, age and objectives. As we shall see in chapter 9, this is largely inconsistent with the modern organisation theory, which has clearly demonstrated that there is no universal management system that is appropriate in all situations. The essence of the "contingency theory" is that there is no one best way to manage business enterprises, and that management should be based on the situation in which the enterprise operates. For example, a dynamic environment might necessitate differentiation and decentralisation of decision making powers to enable divisional and regional managers to respond to the opportunities and threats in their environment. A static environment, on the other hand, might cope with standardised rules and centralised decision making.

6.1.3 Employment

The total number of staff of the two factories as at October, 1989, was 232 **(Rea: 129, and Kirikab: 103)**, composed of 42 officers and 190 workers. However, apart from the voluntary resignations of some skilled technicians, who have joined the private sector or travelled abroad, the size of the work force remained constant over the years.

6.1.4 Financial Performance

As the following financial statements reveal, both factories have been incurring persistent losses over the years.

Table 6.1
Combined Balance Sheets
Between 1979/80 and 1985/86
(£s 000)

Particulars	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86
Fixed Assets(net)	251	238	226	219	210	201	192
Current Assets	1365	1178	1114	1201	1421	1439	1405
Total Assets(1)	1616	1416	1340	1520	1631	1640	1597
Current Liabilities	689	774	996	1412	2329	1879	2130
Long Term Debts	2800	2864	3177	3777	4518	5208	6131
Total Liabilities(2)	3489	3638	4173	5189	6847	7087	8261
Net Worth (2-1)	-1873	-2222	-2833	-3665	-4616	-5447	-6664

Table 6.2
Combined Income Statements
Between 1979/80 and 1985/86
(£s 000)

Particulars	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86
Sales	1499	1135	847	661	605	496	1274
Cost of Sales	1197	1037	986	944	967	670	1594
Gross Profit (Loss)	302	98	-(139)	-(283)	-(362)	-(174)	-(320)
Other income	22	60	67	117	219	105	461
Administrative Expenses	445	502	535	667	783	901	1010
Net Profit (Loss)	-(121)	(344)	(606)	(832)	(926)	(970)	(968)
Accumulated Losses	2172	2516	3128	3960	4886	5856	6823

Table (6.3)
Ratio of cost of sales to sales
(%)

Factory	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86
Kirikab	72.7	73.8	146.4	156.6	183.1	194.3	171.0
Rea	87.4	119.5	97.1	137.3	146.3	111.6	110.7
Combined Ratio	79.9	91.4	116.4	142.8	159.8	135.8	125.0

The following observations can be made from the above financial statements. First, it is evident that the persistent losses incurred by the factories have wiped out their capital. As a result, the tangible net worth of the factories is negative, indicating that they are technically bankrupt (table 6.1). Second, both factories have failed to cover their production costs, let alone administrative and selling expenses (table 6.2). Third, the ratio of cost of sales to sales has been erratic in both factories. In Kirikab factory, for example, the ratio of cost of sales to sales increased from 72.7 percent in 1979/80 to 171 percent in 1985/86, while in Rea factory the ratio increased from 87 percent in 1979/80 to 110 percent at the time of closure (table 6.3). Nevertheless, our investigation revealed that the reasons for the very high production costs have never been systematically investigated, nor has there been any significant effort to control costs in order to minimise losses (see below).

Fourth, the receipts classified as "other income", though not showing any strong trend, have on average, been rising. Indeed, they increased from £s 22,000 in 1979/80, to £s 146,000 in 1985/86. The care-taker management indicated that the real nature of "other income" were receipts from levies made by the factories over and above the regulated prices. As we shall see later, due to the severe liquidity problems facing the factories, the management entered into agreements with prospective customers to sell their products in advance, at an agreed price above the official price set by the government. The mechanism was meant to enable the factories to obtain their inputs from the local market at the prevailing market prices. As we shall see in chapter 7, in the Sudan, there are official prices for all inputs, local or foreign, but such prices are not available in real life. As a result, public and private enterprises have either to stay idle until inputs are made available at the official price, or resort to the unofficial market to obtain their needs at much higher prices, which are not recognised for pricing purposes.

The unsatisfactory performance of the sweet industry outlined above is attributed to a number of factors. First, over-staffing. At the time of nationalisation in 1970, the factories were operating on three-shifts basis. Thereafter, however, the industry was barely operating on a one-shift basis, but has retained the same work force employed for the three shifts. Indeed, the annual wage bill at the time of closure was £s 734,000 , representing around 60 percent of turnover. Although the factories were not operating between 1986 and 1989, the staff received all their wages, including salary increases announced by the state in the interim. Second, an investigation by the Industrial Research and Consultancy Centre, of the Ministry of Industry, in 1985, reported that the plants are too old, and in poor condition, due to the breakdown of repair and maintenance. The report stated that, "the vacuum pumps need to be replaced, and the wrapping machines not only caused delays due to frequent stoppages, but also considerable loss of wrapping papers due to bad alignment of machines". Third, due to the heavy indebtness of both factories to the commercial banks, they were unable to borrow from the open market. Moreover, the "care-taker" management asserted that their repeated requests for the government backing were simply neglected by the authorities. Nevertheless, the withdrawal of the banking support, and failure to get access to public funding, created severe liquidity problems, which crippled the industry from operating on sound commercial basis. Indeed, as table (6.1) reveals, current liabilities since 1983 were greater than current assets, indicating that the factories were unable to meet their current maturing obligations. To overcome this liquidity problem, the factories used to sell their products in advance to traders, so that they can finance their operations. A fourth contributory factor to the poor performance of the industry is its inept management, namely the poor financial management systems, as illustrated by the absence of any effort to collect accounts receivables, the backlog in accounts, and failure to follow up tax assessments and recover refunds due. For example, the two factories have taxes over-paid in an amount of £s 80,000 ($229,600) since 1978. The Taxation Department did not make the refunding, because "no claims were made by the factories" argued a senior tax official. Fifth, the selling prices which were fixed by the Pricing and Costing Unit of the Ministry of Industry with a 10 percent profit margin on "allowable costs", were considered unrealistic by management. The care-taker management bitterly argued that "although input prices have pushed up dramatically during the 1980s, and were virtually not available at the official prices, revision of prices was not granted on time, or not granted at all". Other factors common to all enterprises, public and private, include the frequent power failures, shortages of fuel, and the inadequate transportation and telecommunication services (see chapter 7).

6.1.5 Efforts to Improve Performance

During the 1980s, a number of studies were carried out to investigate the operations of the factories, but no action was ever taken. For example, in 1980, a government committee investigated the operations of the two factories and recommended a capital injection of £s 995,790 ($2,489,475). The idea was to rehabilitate the plants so that they could operate at reasonable levels of capacity. However, due to lack of finance, the recommendation was never implemented. A second study conducted by the Industrial Research and Consultancy Centre and the United Nations Industrial Development Organisation (UNIDO) in 1983, suggested the rehabilitation of the Kirikab factory at a cost of $0.4 million, and injection of capital in an amount of £s 3.37 million. But, due to the huge investment required, the recommendation was not implemented. A third study carried out by the Industrial Research and Consultancy Centre in 1985, concluded that the factories were over-burdened with debts, over-staffed and poorly managed. In effect, the study proposed two solutions: one, the state should provide the necessary financial support that enables the factories to operate efficiently. Alternatively, the state should consider selling the factories to interested investors. Soon after, however, the factories were closed down, and a decision taken to privatise the industry.

Consequently, a study team assissted by a World Bank adviser was formed to investigate the financial and technical conditions of the two factories, and to suggest an appropriate privatisation mechanism. After careful investigation, the study team proposed the following privatisation techniques: (1) Selling the factories as going concern to interested investors. (2) Encouraging the work force to form a cooperative and acquire the factories. To implement this course of action, the study recommended that the government should consider providing soft (deterred) terms of payment, extend concessions regarding the allocation of foreign exchange that enables buyers to rehabilitate the industry, fix realistic selling prices, and supply the factories with sufficient sugar. (3) Liquidate the factories and sell their assets, through open auction or competitive bidding. (4) Lease the factories with an option to buy at the end of an agreed period. (5) Close the factories, use their buildings as warehouses, and consider selling the assets in due course.

Following this investigation and the comprehensive recommendations presented, the Council of Ministers decided to adopt the first option, selling the factories as going concern, and the Minister of Industry was mandated to implement the decision. In effect, the Minister of Industry addressed the Industrial Research and Consultancy Centre to carry out the valuation process, the Auditor General to certify the accounts, and the Civil Service Chamber to assess the staff benefits. The overall responsibility for the management of privatisation was assigned to ad hoc committee, chaired by an official from the Ministry of Industry, and representatives of the MFEP, the Auditor General, and the Attorney General.

6.1.6 Valuation

In 1979, a committee composed of civil servants valued the two factories at £s 5 million. Although, the factories grew more older, without any major repairs, and that the factories were incurring persistent losses, the Industrial Research and Consultancy Centre valued the factories at £s 23 million in 1987, a large portion of which was assigned to the fixed assets, namely land and buildings. The two factories were established over a huge tract of land, and had some good buildings, in a highly demanded area. Indeed, the head of the team that carried out the valuation asserted that "our valuation was based solely on the current market value of land, and the rent rates of warehouses in that area". Nevertheless, the valuation appears to be over-estimated, as the subsequent bids showed (see below).

6.1.7 Accounts

As we shall see in chapter 7, the accounts of almost all PEs in the Sudan are years behind, and the sweet industry is no exception. Indeed, both factories have not been audited since 1978/79. The Assistant Auditor General for corporations argued that "we found the accounts of both factories have not been closed since 1981/82. Therefore, we started by making up the accounts for all subsequent years. Moreover, a lot of primary documents were missing, and we had to rely on unofficial documents and verbal statements by management. Therefore, we issued qualified audit reports indicating that, these accounts do not represent a true and fair view of the financial position of the factories". Indeed, the "care-taker" management refused to affirm these financial statements, though they agreed, in general, with the audit findings. They pointed out that, in view of the fact that we were unable to obtain receipts for the actual input prices paid, it is difficult to ascertain these statements[1].

[1] For accounting purposes, they used to record the official input prices, rather than the actual prices paid to acquire inputs from the illegal market.

6.1.8 Employment

Although the Civil Service Chamber submitted its final report in May, 1987, no decision regarding employment was taken until October, 1989, by the incoming military government. The total severance payments amounted to £s 597,658, and the state assumed the liabilities of both factories, in an amount of £s 7.6 million.

6.1.9 The Privatisation Scenario

Following the finalisation of the above preparatory measures, but before laying-off the staff, the privatisation committee issued on March 16, 1988, advertisements in local newspapers inviting investors to submit their bids. The bidding process was closed a month later. However, the highest bid received was around £s 6 million, and hence it was decided to reopen the bidding process. But, the bids were again less than £s 6 million, and the privatisation committee came to the conclusion that selling the factories as going concern was inappropriate. Therefore, it was decided to effect privatisation through open auction.

Nevertheless, until August, 1990, when the data collection for this thesis was completed, both factories were still under public ownership, though all the work force were retrenched. The officials interviewed indicated that the privatisation committee is no longer functioning, as a new ministerial committee has been created to oversee the privatisation process. It worth noting that, the Public Enterprise and Economic Management Project (see chapter 11) envisaged that the industries should be privatised by October, 1988.

6.2 The Overall privatisation Plan

Based on the recommendations of a National Economic Conference arranged by the incoming military government in October, 1989, a "Three Year Economic Salvation Plan" (1990-93) was announced in mid 1990, in which wholesale privatisation was adopted. In what follows, we will outline the main features of the Economic Salvation Plan, with special emphasis on privatisation and its related agenda. However, it must be stressed at this stage that, we will outline the Plan in a descriptive form. The analysis and discussion of the main constraints to privatisation in the Sudan will be the focus of later chapters.

6.2.1 The General Goals of the Plan

The official document cited the following major objectives of the Economic Salvation Plan:

(1) Revitalisation of the Sudanese economy by redirecting the economic activities towards production.

(2) Optimum utilisation of available local resources, and encouraging interested investors (local and foreign) to participate.

(3) Ensuring that the revitalisation of the economy shall not be sought at the expense of the low-income group, and hence create social imbalances.

6.2.2 Means to achieve the goals

The following means were cited to achieve the above broad goals:-

(a) *concentration on agricultural development.*

(b) *-Liberalisation of exports through removal of export licences and replacing it by "export contracts" so as to ascertain the quantity and value of exports. Exporters shall be allowed to retain 40% of foreign exchange generated, which shall be used for the importation of the following inputs, in accordance with the prevailing import policies.*

- *Agricultural inputs,*
- *Industrial inputs,*
- *Spare parts for the transport sector.*
- *Building materials.*

(c) *elimination of all administrative, economic, and legal investment obstacles to enable investors and businessmen at home and abroad to take an active part. These include:-*

- *deregulation of all economic activities, with the exception of the mining sector.*
- *privatisation of PEs through sale (in full or part), liquidation, leasing or any other mechanism deemed relevant.*
- *introducing radical changes in all the rules governing the economic activities, such as taxation, custom and excise duties, and labour policies to facilitate the direction of resources towards production and development.*
- *initiating amendments in the structure and operations of the financial institutions.*
- *immediate liberalisation of exports, and gradual liberalisation of prices.*

(d) *establishment of a comprehensive social security system to enable low-income group (inside and outside the civil service) to meet the effects of price rises, which are expected to follow the structural adjustment measures.*

6.2.3 Ancillary Arrangements

(i) Investment Climate

To promote investment, the programme envisaged the followings:

a- review all investment regulations in the country.

b- payment of "critical" debts that might affect the existing development projects, or otherwise exerting more effort to reschedule these debts.

c- establishment of a 'national fund' in an initial amount of £s 100 million, to attract competent Sudanese staff working abroad, and amendment of labour policies for that purpose.

d- declaration and application of additional incentive package to promote agricultural and industrial investment. These incentives shall include :

- *tax exemption on the first 15% of profits for a minimum period of 10 years;*
- *exemption of imported inputs and equipment from custom duties,*
- *allowing investors to open a foreign exchange account at home, to be supplied by the amounts retained from exports, for the importation of inputs,*
- *provision of free land,*
- *allowing the use of foreign experts in accordance with the agreement with each investor.*

e- establishment of a fund in an amount of £s one billion to finance agricultural and animal production investments undertaken by national investors.

f- establishment of a fund in initial amount of £s 100 million, to finance small scale industries.

g- exemption of all funds provided by the commercial banks to agricultural and industrial projects from the ceilings imposed by the central bank.

(ii) Fiscal Policies

Regarding the fiscal policies, the programme - among a lengthy list - envisaged the followings:-

a- removal of price subsidies through the use of dual pricing with a view of gradual liberalisation of prices. The dual pricing means a subsidised price for a certain quota, and another higher price for any amount in excess of that quota. For instance, the following quota and dual prices were declared for fuel and sugar. Each car is entitled for four gallons a week at £s 12.5 ($1) a gallon, and each family member for 2 lb of sugar a week at £s 3 ($0.25) per lb. Any amount in excess of these quotas, shall be obtained at £s 30 ($2.5) a gallon, or £s 20 ($1.65) per lb of sugar.

b- reduction of chapter one expenses (salaries and wages), through retrenchment of surplus staff, and establishment of a rationalisation fund for that purpose.

c- encouragement of the banking systems to provide reasonable rates of return on deposits so as to mobilise public savings for investment purposes.

(iii) Monetary Policies

-The programme envisaged the followings :

a- stabilisation of the exchange rate system for "a reasonable period".

b- establishment of a stock exchange market.

c- Islamisation of the banking systems.

d- privatisation of the commercial banks, starting immediately with the "Sudan Commercial Bank".

(iv) Public Corporations and Companies

Regarding the public enterprises, the economic plan (1990-1993) envisaged the privatisation of the following enterprises, through sale (in full or part), liquidation, or any other mechanism deemed relevant by the privatisation committee.

(-) Agricultural Enterprises

- *The Blue Nile Agricultural Corporation.*
- *The White Nile Agricultural Corporation.*
- *Nuba Mountains Agricultural Corporation.*
- *Northern Agricultural Corporation.*
- *Tokar Agricultural Corporation.*

(-) Industrial Enterprises

- *All Textile and Weaving industries (12).*
- *All Food companies (7).*
- *All Tanneries (4).*

(Figures in brackets indicate the number of enterprises).

(-) Hotels and Tourism Corporations

- *All hotels and guest houses owned by the state.*
- *Government equity in joint venture hotels.*
- *Any other tourism corporation owned by the state.*

(-) The Transport, Commerce and Energy Sectors

- *Conversion of both the Sudan Airways and Sudan Shipping lines into joint ventures, with the state participating by the existing assets in both companies.*
- *deregulation of :*
    - *Post and Telegram services.*

- *Telecommunication systems.*
- *Air ; sea and river transport.*
- *Electricity generation.*
- *Sale or liquidation of all loss making trading enterprises.*

Finally, in order to minimise the side effects of the programme (e.g. the general price rise that are expected to follow), the plan envisaged the establishment of a "social eguity fund", in an initial amount of £s one billion. The objectives of this fund" shall be to provide assistance for the low-income group-inside and outside the government domain - who are expected to suffer most".

6.2.4 Actions Taken

Following the announcement of the Three-Year Economic Salvation Plan in mid-1990, the authorities established a series of committees to prepare for the implementation of the Plan. First, the Minister for cabinet Affairs - an army officer leading a campaign to "revolutionise" the civil service - formed the following committees. One, a committee to provide specific definition for PEs and to classify them into strategic/non-strategic units. A second committee to clarify the objectives of public corporations and companies, and to design a performance evaluation system for each. A third committee to review existing PE regulations and rules. A fourth committee to investigate management practices, the basis of selection, and to review existing organisational structures with a view of establishing an effective balance between autonomy and accountability. All the four committees were composed of civil servants representing concerned ministries, and army officers from the Military Economic Board.

Second, before these committees started work, the Minister of Finance - a man who spent all his career in the private sector, notably the Islamic banks - issued a ministerial decree number 63, dated June 24, 1990, which reads as follows :-

"To achieve the objectives of the three-year Plan and pave the way for its implementation, we decided to form the following committees, which shall be coordinated by the Undersecretary For Finance".

ONE : Social equality Fund Committee to :-

- Secure finance for the fund.
- define beneficiaries.
- suggest ways of distributing funds made available, ways of retraining retrenched staff, and ways of managing the fund.

TWO : Investment Guarantee Fund Committee to :-

- Secure finance for the fund.
- define beneficiaries.
- define the relationship between the fund and the commercial banks.
- establish administrative and legal regulations to avoid exploitation by the 'opportunists'.

THIRD : Monetary Policies Committee to :-

- suggest ways of controlling monetary supply and ways of Islamisation of financial institutions.
- review the existing banking system regulations.

FOURTH : Private and Public Enterprises debts committee to:-

- ascertain the size of these debts to the banking systems
- ways of clearing these debts.

FIFTH : A committee to:-

review the existing investment codes, and to suggest ways of ratifying these codes to promote investment.

SIXTH : Pricing Policies Committee to:

review the existing price mechanism, legislation, administrative units, and to propose a timetable for price liberalisation for both locally produced and imported goods.

SEVENTH : Public Corporations Committee to :-

- suggest a detailed privatisation programme for 1990/91 (i.e. the privatisation candidates, privatisation mechanism, etc).
- privatisation management and ways of promoting the privatisation programme at home and abroad (especially among the Sudanese working abroad).
- prepare detailed studies on enterprises selected for privatisation during the fiscal year 1990/91.

These various committees were composed of civil servants, academicians, businessmen, and local private consultants. Although the ministerial decree stipulated a four-week period for the committees to submit their final reports, we found that no major progress was made in any of the above listed tasks. The chairman of the public corporations committee - a local private consultant - argued that "this is a very demanding assignment for which one month is not sufficient even for data collection". Similarly, the chairman of the committee charged to sort out PE's debts - an academician - stated that "due to lack of reliable data in one place, we expect this task to take at least three months of hard work by a dedicated, full time staff; while all the members of our committee are part-timers, participating on voluntary basis". "So far (August, 10, 1990) we met three times, and have just started the data collection", he added. Other committees barely started in mid-July, and were not expected to meet the deadline by any means. Little has happened since August, 1990, perhaps due to the fact that the country is facing severe shortages of food supply, and a civil war, which must have affected the pace.

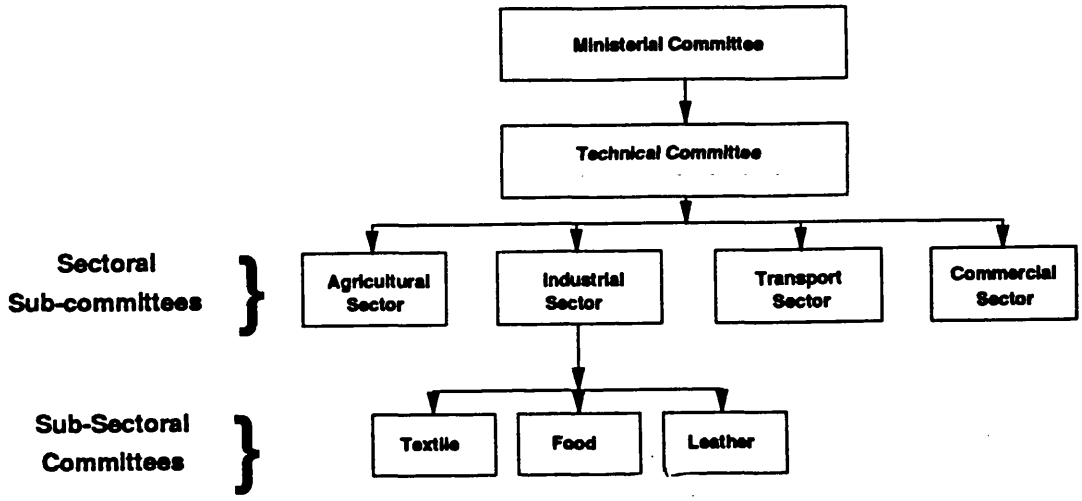
Authorisation and Management of Privatisation

To facilitate the implementation of the privatisation plan, "the Revolutionary Command Council" issued a decree authorising the privatisation of all enterprises listed in the three-year plan. The decree further established a permanent, inter-ministerial committee to supervise the implementation process. The committee is chaired by the Minister of Finance, and includes the Auditor General, the Attorney General, the concerned ministers, and the chairman of the Supreme Authority for Investment (ministerial status). The latter was assigned the coordination function, as well as the responsibility for finalising the sale, viz: negotiating the price and signing the legal sales documents.

The ministerial committee is assisted by a higher technical committee to perform the following tasks : ascertaining the number of PEs; the government equity in each; size of staff and the required severance payments; valuation of assets and liabilities; preparation of sales brochure; suggestion of the appropriate privatisation mechanism, analysis and evaluation of offers; and preparation of recommendations there of. The higher technical committee in turn is assisted by a number of sub-committees, each specialising in a sector and sub-sector (e.g. a sub-committee for industry and various committees within the industrial sector, i.e. food, leather and textile.)

The following diagram illustrates the organisational set up adopted for the management of privatisation.

Management of Privatisation



All PEs selected for privatisation come under the direct control of the privatisation committee. In what follows, we shall comment briefly on the above privatisation plan, leaving the main analysis and discussion to later chapters.

First, due to economic and practical factors, it would be difficult to privatise all these PEs in such a short time period. The point is that, the internal capital market is unlikely to absorb all these PEs. Foreign investment, on the other hand, is unlikely to come in, because the business environment is highly distorted, and the political system unstable(see chapter 12). Second, despite the fact that privatisation is a new and a very complicated policy, and that technical expertise is in short supply in the internal market, the use of foreign advisers was firmly rejected. The Minister in charge of implementation argued that "we believe, there are sufficient and competent national experts to carry out the plan, and more important we want to make it a Sudanese endeavour in all respects". As a result, the authorities resorted to civil servants and local private consultants, who are participating on voluntary basis. Nevertheless, it appears that the authorities are very keen to privatise as urgent as possible. For example, the privatisation plan was announced in mid-1990 to be completed in 1993, and the committees preparing for privatisation were given just four weeks to submit their reports. This is unrealistic, not least because basic data about the number of PEs, the size of staff, and the financial and technical conditions of PEs is not known with any degree of accuracy.

Third, there were no clear, transparent privatisation rules developed to govern valuation, selection of buyers and other implementation issues, so as to reduce the chances for irregularities. This is a serious defect, given the fact that private sales are likely to be the main privatisation mechanism, due to the thinness of the financial market. Thus, as **Vuylsteke (1988)** argues "individual sales should be subject to clear minimum standards that ensure orderly disposition, maximum return to the state, a fair process for the general public, and assurance that the purchaser is qualified to run the enterprise productively". Fourth, the fact that the privatisation plan was formulated and announced in some haste (just 9 months after the government assumed power via a military coup), meant that the policy was not exposed to consultation and debate with interested parties, such as labour unions, political parties and the general public. It is true that such a democratic process is time-consuming, and might allow opposition to become more focal. But it is equally true that, the lack of this democratic process and transparency could lead to serious irregularities, and possibly renationalisation by a future government.

Finally, it seems that there is a confusion between the various government units involved. For example, although a cabinet-level committee was established to oversee the implementation process, the Minister for Cabinet Affairs - an army officer - is establishing his own committees. Moreover, we found that sectoral ministries, notably the Ministry of Industry, are not at all happy about the organisational arrangement made, and insist that they are the appropriate body to privatise their PEs. Indeed, only a few weeks before the privatisation programme was announced, the Minister of Industry issued an advertisement in local newspapers offering to sell six industrial PEs, and inviting investors to submit their bids. Needless to say, the persistence of this situation damages the credibility of the programme, and leads to confusion, overlapping and frustration.

6.3 Lessons from experience

In this final section, we shall outline some of the emerging lessons from the Sudanese experience and the experience in other DCs. Our primary objective is to find out the major constraints to privatisation in DCs, and their implications on the recent privatisation plan in the Sudan. To start with, it is evident that, privatisation has been on the agenda since the early 1980s, but no major progress has been made. This is largely consistent with the experience in most DCs, such as Brazil, Morocco, Nigeria, Turkey, The Philippines, and Senegal (**Kapstein, 1988; Kikeri, 1990; Callaghy and Wilson, 1988; Leeds, 1988; Haggard, 1988; Galal, 1990**). Indeed, **Berg and Shirley (1987)** found that, apart from Bangladesh and Chile, very few denationalisations have been implemented in DCs (less than 20). Even liquidations, leases and management contracts, which require no ownership transfer, have been scarce. Although things might have changed since then, it is evident that the privatisation policy has been progressing very slowly in DCs. As in most other DCs, the impetus to privatisation has been a combination of economic factors and mounting pressures by the World Bank and other international creditors to implement fundamental economic reforms. Indeed, in 1987, the World Bank initiated a Public Enterprise and Economic Management Project, aimed primarily at reducing the number of PEs (see chapter 11).

The major privatisation constraints in DCs have been a combination of political, economic, and technical factors. The political constraints to the policy include the political/ideological opponents, the parties who have a vested interest to maintain the status quo (e.g. workers, bureaucrats, etc), the role of foreigners and the ethnic minorities, and the impact of privatisation on jobs, consumer prices and regional development. These political obstacles, in turn, had influenced the initial decision to embark upon privatisation, what and how to privatise. As **Kikeri (1990)** argues " Senegal, Morocco and Ghana are examples where ideological and socio-political factors, and the reluctance to privatise firms which generate revenues for the government, affected the choice of initial candidates and delayed implementation".

The point is that, the well-organised interest group have managed to paralyse the privatisation process in most DCs. First, there is the political opponents who oppose the policy on the grounds that, a market economy - a prerequisite for the success of privatisation - would lead to serious unemployment problems, higher consumer prices, and unemployment problems, and social imbalances. These concerns, in turn, have influenced the scope and pace for privatisation, and created political tensions and fragmentation. Indeed, the evidence from Turkey, The Philippines and Nigeria indicates that even ideologically - committed governments have been reluctant to move ahead on the privatisation front, solely because of its socio-political consequences **(Leeds, 1988; Callaghy and Wilson, 1988; Haggard, 1988).** Second, the military, who often oppose the policy on security grounds, though their real concerns is that they stand to lose material interests by the advent of privatisation. The support of the military, however, is critical in DCs, simply because they could arrange a military coup and seize power. A third interest group is the civil service who are also potential losers, and have been active opponents in a number of DCs **(Heald, 1990; Bienen and Waterbury, 1989; Leeds, 1988; Haggard, 1988).** The fourth and most important opponents have been the trade unions and PE managers, who are expected to lose their jobs. Essentially, drastic labour lay-offs have to be made prior to privatisation, so as to attract prospective buyers. Indeed, the available evidence indicates that, this single preparatory activity has caused serious concerns to policy makers in DCs, because they lack the income support systems of industrial countries, and lack funds to provide generous retirement benefits to retrenched staff. Moreover, the fact that privatisation has been initiated at a time when the economy is declining, meant that job prospects are bleak. Likewise, the very basic idea of exposing management to the disciplines of the market forces has often been opposed by the management concerned. As **Kay and Thompson (1986)** argue, "If this were so, then it would be expected that the prospects of privatisation would be distinctly unwelcome to the management concerned". Indeed, the evidence from the UK indicates that, the management of some enterprises (the Gas, Telecom and Airports), have shaped the way their organisations were privatised **(Kay, 1987; Yarrow, 1989).** Nevertheless, experience shows that, the employment problem has been the single most limiting constraint to privatisation in DCs **(Vuylsteke, 1988; Cowan, 1990).**

Indeed, this is exactly what happened in the Sudan, regarding the implementation of the early privatisation initiatives. Fears of the consequences of privatisation on employment have deterred the previous democratic government (1986-89) from taking any action regarding the staff of the sweet factories, though they were closed down in 1986. Indeed, that government had also paid the staff salaries of private firms, such as "the Gulf Textile company". This is a private concern, which ceased operations in mid-1986, basically due to financial difficulties. However, for socio-political considerations, the government paid the staff salaries for more than three years, at a cost of £s 30 million per year (a decision was taken in May, 1990, to terminate the services of staff and close the factories).

Under the present military government, however, all political parties and trade unions are banned, which enabled the government to terminate the employment staff of both sweet factories and the private textile company. Indeed, the absence of political opponents has made the decision to embark on privatisation quite easy and quick, which might have not been the case had political parties been active. However, lack of consultation and discussion with political parties and worker's unions could have a detrimental impact in the long run. For example, a future government might renationalise these industries, and if investors are uncertain, they will be reluctant to participate, thereby reducing the number of buyers. Nevertheless, unlike the situation in most DCs, so far the political constraints have been insignificant in the Sudan.

The economic constraints to privatisation centre around the lack of capital in most DCs, not only to acquire PEs, but also to finance the transaction costs, such as advisers and advertising expenses, the benefits to laid-off workers, and the cost of preparing PEs for sale. The point is that, the financial markets in most DCs are under-developed, poorly regulated, the confidence in the financial system is rather weak, and foreigners and local minorities may be ruled out on political grounds **(Heald, 1990; Kirkpatrick, 1988; Callaghy and Wilson, 1988)**. As we shall see in chapter 12, the capital market in the Sudan is too thin, interest rates are negative in real terms hindering the mobilisation of public savings, and inflation rates are above the 100 percent level making it unrewarding to lend. Indeed, the absence of a well-functioning capital market, the low-level of income and education, and the absence of accounting standards have rendered a public offering almost entirely irrelevant. Moreover, management/employee buy-out in the form of "cooperatives", suggested a number of concessions to be granted, such as deterred payment and special treatment regarding foreign exchange allocation, sugar quotas and favourable prices. Such concessions, however, are likely to be costly, and might induce other investors to demand the same treatment. More important, concessions in the form of protection from imports and access to state financing, defeat the very basic idea of privatisation, i.e. efficiency via increased competition.

The flow of foreign capital is likely to be minimal, not least because the business environment is highly distorted and the political system unstable (see chapter 12). Likewise, the use of debt : equity swaps as a means of accelerating the flow of foreign investment into the Sudan is unlikely to be a feasible alternative. This mechanism, designed basically to solve the debt problem of DCs, works as follows. First, a creditor sells his loans to a private investor at a discount. Second, the buyer presents the debt certificate to the central bank of the country concerned to be redeemed in local currency at the prevailing exchange rate. Third, using the local currency, the buyer could acquire equity in the privatised PEs **(Blackwell and Nocera, 1988).** The method has the following main advantages. It allows the creditor to get rid of the problematic debts, and it enables the debtor to reduce his foreign obligations and restore his creditworthiness. The buyer, on the other hand, would be able to obtain local currency at a cheaper rate, due to the discount offered. However, it suffers from serious technical difficulties. First, it is technically difficult to determine the appropriate exchange rate to redeem the debt. In the Sudan, there are two exchange rates : the official rate set by the state and the black market rate, which is way ahead of the former. Second, the technique requires a favourable business environment, a stable political and legal system, and a developed private sector, all of which are absent in the Sudan. Third, to be eligible for the conversion, the external debt must be owed to commercial banks, rather than governments **(Blackwell and Nocera, 1988).** However, around 90 percent of the Sudan's foreign debt is owed to international organisations and foreign governments **(Bank of Sudan Report, 1988).** Fourth, if the country financed the swap through the banking systems, it could lead to serious crowding-out effects and more pressures on the financial market. In summary, the lack of capital in the Sudan is a serious threat to the government privatisation programme, which is consistent with the experience in most DCs.

The technical constraints to privatisation in the Sudan and other DCs are mainly the lack of experts to formulate a viable privatisation plan, and to help in its implementation. Privatisation essentially requires adequate, time-consuming preparations by highly qualified institutions, such as merchant banks, law and accounting firms, and technical experts in the nature of the PE to be sold, which are not available in the local market. Indeed, as **Kikeri**

(1990) argues "The recent experience indicates that the design and implementation of divestiture have been more complex and time-consuming than anticipated, and that the efficiency and fiscal gains potentially arising from such reform have not been fully realised, due to a combination of practical and contextual factors".

As regards valuation, for example, failure to sell the sweet factories was attributed, in part, to the high price set by the bureaucrats. The Sudanese have resorted to the inexperienced civil servants and local consultants to implement the master privatisation plan, partly due to lack of foreign exchange to pay for the foreign advisers. However, as **Cowan (1990)** argues "Civil servants when faced with the complexities of privatisation often tend to delay the work indefinitely, rather than admit their ignorance". More important, a civil servant appointed by virtue of position might not be committed to the policy, leading to considerable delays, which would affect future privatisations. Indeed, failure to privatise the sweet factories was cited by a number of interviewees as evidence that the current privatisation plan is bound to fail.

The major similarities and differences with the experience in other DCs include the followings. The management of the recent privatisation plan was assigned to a high level ministerial committee, which is consistent with the experience in most DCs, such as Brazil, Malaysia, Senegal, and the Philippines **(Vuylsteke, 1988; Cowan, 1990; Kikeri, 1990).** Unlike the experience elsewhere, however, no privatisation rules were developed, the use of external advisers was rejected, no adequate preparations were made prior to embarking upon privatisation, and consultation with other parties involved was sacrificed to speed up the implementation process. But, unlike the situation in most African countries, no local residents were excluded as "unacceptable" buyers, and it appears that foreign participation is highly welcomed. This is illustrated by the fact that, a few weeks before announcing the policy, a conference was arranged in Khartoum to assess the investment climate, in the course of which foreign investors were invited (see chapter 5).

In summary, regardless of the economic appeal of the policy, implementation has faced increasing difficulties in DCs and the gap between plans and actual privatisation remained very wide. As **Pfeffermann (1988)** argues "The reality of privatisation, according to empirical data, is far less impressive than the rhetoric would suggest". And the Sudan is no exception. Although privatisation was contemplated a decade ago, no major progress was made. Needless to say, the persistence of this state of affairs (lack of action) would undoubtly create chaos, confusion, uncertainty, and possibly policy reversal. The Sudan shares with other DCs the economic and technical constraints to privatisation. However, the political constraints found in so many DCs, have been insignificant, solely due to the absence of political parties and trade unions, which were banned in mid-1989 by the present military regime. This lack of consensus, however is a serious deficiency, because the policy might be reversed by a future government, and this uncertainty would reduce the number of potential buyers.

Chapter Seven

The Cases

The case study approach was followed to investigate the structure, performance, and major problems of PEs in the Sudan. The enterprises selected for the study included public corporations organised under 1976 Act and private limited companies under the 1925 Act. These were:

Enterprise	Legal Form	Sector
Sudan Telecommunications	Public Corporation	Transport
Gezira Scheme	Public Corporation	Agriculture
Duty Free Shops	Public Corporation	Trading
Guneid Sugar Company	Company	Industry
Friendship Textile Company	Company	Industry
Sudan Airways	Company	Transport

The selection was based on:

(.) sector of activity and strategic importance,

(.) contribution to national economy,

(.) size,

(.) possibility for privatisation.

In addition, two private enterprises were also visited, primarily to identify the main problems of the private sector, and to assess the business environment in the Sudan. The main research methods used for data collection were interviews with senior management of the above enterprises, the officials in the sectoral ministries, the MFEP, the Bank of Sudan, and the Auditor General[1]. Another, research method used to supplement the interviews were the audited financial statements whenever possible.

Case I: The Sudan Telecommunication Public Corporation (STPC)

In 1978, the Department of Telecommunications, Ministry of Transport and Communications, was converted into a public corporation, under the Public Corporation Act,1976, and named "Sudan Telecommunications Public Corporation"(STPC). The range of services to be provided by the STPC as per its "Warrant of Establishment" include:

(1) Telephone and Telex services,

(2) supply of communication equipment,

(3) lease lines for commercial and government subscribers.

The following key figures, taken from the corporation's budget for 1988/89, indicate the magnitude of its operations (no actual reliable data are available):

Revenues			*£s 37.9m*
Expenses:			
Chapter one:	*salaries and wages*	*£s 37.9m*	
Chapter two:	*operations*	*£s 38.4m*	
Chapter three:	*development*	*£s 3.6m*	*79.9m*

Net surplus			*£s 33.9m*
			========

Total number of staff (estimated) : *8400*

Number of telephone lines (estimated) : 70800

Number of telex installed : *1380*

[1] A sample of interviewing guidelines will be provided in the appendix.

Institutional Environment

As per its "Warrant of Establishment", STPC has a monopoly position, though it is not free to set tariff levels. The government sets the tariffs based on subjective criteria, such as unit costs or the rate of inflation[2]. Indeed, as with all other public utilities, there is no regular price adjustment, and virtually no costing of services is undertaken upon which to set prices.

The corporation generates some $200,000 a month, but has a limited freedom of disposition. All its foreign earnings must be deposited with the Bank of Sudan, and reallocated according to the government priorities. Thus, an application must be filed to the Bank of Sudan for all its imported needs, and approval is subject to availability of foreign exchange and the government priorities. The financial manager - on secondment from the MFEP - asserted that the lack of foreign exchange has seriously hindered repair and maintenance, and that the corporation often faces a severe working capital problem, to the extent that at times it fails to pay its staff salaries. The latter, he claims, is attributed to the rigid unrealistic fares, subjective cuts in the annual budget, and inability to collect charges from government units.

Although the Public Corporations Act 1976, provided PEs with a considerable degree of operational autonomy, in reality all public corporations have a limited freedom over all operating decisions. The institutional framework within which STPC operates consist of the sectoral ministry, the MFEP, the board, and a host of other government agencies (see chart 9.2). However, the lack of any medium or long term planning demonstrates clearly that the sectoral ministry has not been able to provide any strategic guidance. The board of directors -before being dissolved in mid 1989 - was composed of civil servants, with no clear terms of reference and insufficient remuneration (£s100 a month, £5 at the official exchange rate). Indeed, there is no evidence that the board has protected the corporation against external

[2] At present, a local telephone call costs about 3 pence a minute, at the official exchange rate of £s12/US$.

influence. The General Manager is of the opinion that a full-time professional chairman should be appointed to provide support and strategic guidance.

As with all other cases, however, the influence of the MFEP is excessive, where all financing, purchasing and investment decisions must be approved by the MFEP. The civil service chamber - a department of the MFEP - sets the salary scales, creates posts, and decides on all promotion and remuneration policies. Moreover all disputes between unions and management are resolved by the central government. All public corporations organised under the 1976 Act, except the Sudan Railways, the Sudan Airways, and the National Electricity Corporation, use a common salary scale set by the government. Although the salary scales for public corporations are relatively better than those offered to the government employees, and that public corporations tend to provide better allowances, the personnel manager asserted that, the corporation has failed to retain its competent technicians, who have travelled abroad. Indeed, while salaries were increased by 130 percent in 1985, and 100 percent in 1988, they failed to keep pace with the ever rising inflation rates and the continuous devaluations. The personnel manager reported that, the corporation has lost about 70 percent of its skilled staff during the last decade.

Finally, due to the lack of foreign exchange in the economy, STPC relies heavily on external aid and foreign loans, However, the General Manager complained about the lack of coordination between donor agencies and the corporation. He explained that foreign loans and aid are negotiated at a higher level without consultation with the STPC. Yet, it must be stressed that, the corporation has no long term master plan that enables it to negotiate effectively with external parties, both at home and abroad.

Organisation and Management

The corporation is organised into functional and regional departments. However, there are serious deficiencies in a number of areas. In particular, the absence of clearly defined roles within the corporation and the absence of specific terms of reference for functional and regional managers, have led to overlapping of responsibilities. As we shall see later, this state of affairs is common in all other cases, and not unique to STPC. There is a long chain of command, and the information flows between regions and the headquarters in Khartoum are inadequate. The span of control of the General Manager is very large, with some twenty one functional and regional managers directly reporting to him (see chart 9.3). Given the fact that there are no terms of reference for these managers, meant that they have to consult the General Manager on all routine operating decisions. There is no post for a Deputy General Manager, which could reduce the General Manager's span of control. The present number of regional managers (7), exceeds the needed level, considering the level of capacity utilisation (see below). The planning function is currently oriented towards technical planning, and does not extend to corporate or manpower planning. The General Manager is politically appointed, with no specific terms of reference or terms of office.

Our investigation also revealed that communication channels are generally irregular and informal. Functional managers asserted that they rarely meet, and team meetings with the General Manager occur primarily at the budget time. Similarly, interface between regional and functional managers is virtually non-existent, and middle management, we met, complained of being bypassed by senior management. Likewise, managers are not in a position to provide specific, target-related instructions to their subordinates, due to the complete lack of management information systems (see below). The total number of staff is around 8400 employees, which amounts to one employee per eight telephone lines connected, is rather very low. Moreover, the budgeted chapter one expenses (salaries and wages) are almost equal to the budgeted operating expenses, which is probably indicative of the overstaffing situation for a capital-intensive industry (in 1988 and after the budget was approved, salaries for the whole civil service were increased by 100%). As regards the quality of staff, deficiencies in most key areas exist, and in particular, grading is inconsistent with job contents. For example, the unsatisfactory promotion system in the civil service implies that school leavers could be promoted from a position of an unskilled worker to that of a technician, without any proper training.

The training function, on the other hand, leaves much to be desired. The STPC has its own training institute. But, the training facilities are inadequate, training needs are not systematically identified, there is almost total absence of consultation between the training director and other directors, and the institute has failed to pay attention to the development of managerial and administrative skills.

Capacity Utilisation

At present, STPC is operating at less than 30% of its capacity, and there is a waiting list for telephone connections of 100,000 (STPC is not accepting any new applications since 1989). The General Manager indicated that the inland transmission network is heavily under-utilised, due to various problems. It suffers from poor maintenance of equipment, and even transport for staff. The poor quality of services provided by STPC is best illustrated by the scarce statistics on faults, call completion rates, and waiting times. Indeed, due to its poor services, a number of organisations, including the Gezira Scheme, have established their own telephone networks, though the STPC has a monopoly position as per its Warrant of Establishment. The General Manager attributed this state of affairs to the lack of foreign exchange and the migration of skilled, highly trained staff. As regards the international network, it was reported that the installation of Arabsat earth station has greatly enhanced calling capacity. However, we understood that STPC has not paid the rent for many years.

Long term planning in STPC virtually does not exist, and the corporation responds reactively to donor proposals. However, the unplanned, uncoordinated external assistance has resulted in a variety of technical systems within the network. The diversity of the systems, in turn, has resulted in multiple spare parts requirements, multiple training needs, and inefficiencies in the use of equipment. More important, the inadequacy of the transportation facilities has resulted in considerable delays in billing, collection, distribution of materials, operation and maintenance.

Performance Evaluation Systems

All PEs in the Sudan use the standardised government evaluation systems for staff appraisal, and are used only for staff promotion. There are three forms used: management staff, clerical staff and workers. The forms for the first two groups, require the appraiser to rate certain aspects of the staff performance by indicating in the appropriate box the scores achieved. For example, on the form for the management staff, knowledge of the relevant rules and regulations would score 7,5,4 or 2. The forms for workers, on the other hand, are merely descriptive, and do not involve allocating points. In reality, however, all employees are invariably found to be outstanding. The following table for a random sample of 89 forms rated in 1989/90, provides a powerful demonstration of this assertion.

Table 7.1
STPC:Staff Scores

Rating Range[1]	Number of Staff	Percentage of total	Cumulative Scores
90 - 100	34	38 - 20	38.20
79 - 89	44	49 - 44	87.64
68 - 78	10	11 - 24	98.88
57 - 67	1	1 - 12	100.00
46 - 56	-	-	
below 45	-	-	
	---	--------	
Total	89	100	

(1) These ranges are printed on the forms.
Source : STPC, Khartoum

Thus, all employees are found to be working at peak, and hence get promoted and receive their annual bonus. The rating system, however, is based on subjective judgement, lacks consistency in the completion of forms, and carried out by incompetent staff. The promotion decisions are often based on a formula, where 70 percent is given to performance, 20 percent to qualifications, and 10 percent to seniority. However we also understood that this formula is not always adhered to, and at times seniority is given a heavier weight than performance.

Incentives

PEs have their own salary scales which are well above those offered for government units, and with adequate flexibility to provide for bonuses. However, the soaring inflation rates, devaluation and the lucrative job opportunities abroad, have made such payments uncompetitive. More important, they failed to bring about a significant turnaround in productivity, simply because the incentives are not linked to performance. And the STPC is no exception.

Bonus payment, though used quite extensively, it is based on subjective judgement, paid to all staff regardless of performance, and because it is calculated on the bases of budgeted net surplus, there is a reason to manipulate the accounts.

Indeed, when we suggested that the amounts paid out could be related to performance, all the personnel managers in all the cases disagreed. They pointed out, it would create labour unrest, and it is difficult to find a satisfactory system to measure performance. The latter reason may have an element of truth, but the former indicates that they do not want to create troubles, and keep the boat sailing. Such attitude, we shall increasingly argue, runs counter to the privatisation policy, which essentially requires drastic labour reduction prior to implementation. But, without the commitment of senior management, this preparatory activity would undoubtedly pose serious problems (see Chapter 3).

Accounting Systems

The corporation prepares its accounts on the basis of government accounting systems, defined as a system where revenue/expenses are recognised only when cash is received/paid. Thus, failure to use accrual basis of accounting, defined as a system where revenues/expenses are recognised when earned/incurred, regardless of whether cash is received/paid, means that the annual accounts are not prepared on sound commercial basis. As a result, management is not in a position to define the resources needed to replace worn out equipment, nor to assess the corporation's ability to meet its current maturing obligations. Moreover, management is unable to negotiate effectively with external parties, including budget approval. Until February 1989, the corporation's accounts were audited by the Auditor General Chamber. Since then, however, the Auditor General had mandated a local private auditing firm to certify the corporation's accounts from 1982 to the present.

Thus, given adherence to the government accounting systems, STPC has never had to incorporate in its accounts a fixed assets amount. As a result, it has not kept a fixed asset registry, nor is it aware of the type and state of assets it possess. In a bid to establish a commercial accounts system, STPC formed a committee in 1988 to value its assets, chaired by the financial manager. But, it was reported that the work of the committee was contested by the board, because buildings and other assets shared with the postal services were excluded from the valuation. Therefore, the fact that the value of fixed assets is not known with any degree of accuracy resulted in an under-stated provision for deprecation. Indeed, the amount assigned to provision for depreciation in 1987/88 (not audited) was only £s 2.5 million. Thus, apart from the fact that the under-stated depreciation would distort the Profit and Loss Account (Net surplus), and prices, it meant that STPC has not reserved sufficient funds to replace its assets, In effect, whenever an asset replacement is contemplated, the government financial backing will be sought. Moreover, the corporation's records do not show loans contracted prior to 1983, even though the period between 1978 and 1983 correspond to the period when 80% of its projects were carried out. It was reported that an agreement has been reached with MFEP not to hold the corporation accountable for these loans.

As we pointed out above, STPC has very little influence on the allocation of foreign loans or aid. It must accept what donors offer, regardless of its urgent needs. At present, STPC has six loans for rehabilitation purposes. USAID Loan of $5 million contracted in

1983/84; Japanese Loan of $2 million contracted in 1984/85; Arab Fund Loan of KD 1.3 million contracted in 1987/88; German Loan of DM 25 million contracted in 1987/88; World Bank Loan of $12.2 million contracted in 1988/89; and a Netherlands Loan of DFI 5 million contracted in 1986/87.

The management information systems, on the other hand, are very limited, unreliable and irregular. Therefore, they are of little value for planning, controlling and decision making purposes. The financial manager attributed this state of affairs to the lack of qualified accountants. The corporation has no costing systems, and prepares its annual budget in accordance with the government budget format and timing (see chapter 9).In the end, the fact that the corporation's accounts have not been audited since 1981 (not to mention price controls) makes any objective judgement of its financial position a difficult task, though its records for 1988/89 show a net surplus of £s33.9 million.

Financial Management Systems.

The poor quality of the accounting data inevitably leads to poor financial management systems. For example, STPC's records showed accounts receivables in 1987/88 at £s53.7 million, of which about 63% are due from other government units, notably the Sudan Rail, Civil Aviation Authority, General Petroleum Corporation, and the Post and Telegraph Corporation (whose relations with STPC still need to be clarified). However, we found no evidence that STPC has exerted any effort to collect these debts. Indeed, some accounts receivables were carried forward since 1978. The financial manager attributed this state of affairs to lack of vehicles, and inability of government units to pay. However, we found that there is no centralised office where billing data are collected, which makes the above figure is highly questionable. The accounts payable, on the other hand, amounted to £s75.3 million, creating a working capital deficit of more than £s20 million. Nevertheless, the fact that there are no records of loans contracted prior to 1983, makes this figure also contestable. An internal auditor position exists within STPC. But, this position has never been filled, and we failed to establish a specific reason for that.

Capital and Surplus Tax

STPC, as all other PEs, is required to pay 5% on its operating capital at the start of each fiscal year. Its records show a total equity of £s50 million, of which £s40 million are termed as "operating capital", while the other £s10 million is shown as "investment capital". This distinction originates from the fact that in 1978 when it was transformed into a public corporation, its physical assets were valued at £s10 million, and the government made a cash payment of £s40 million. In effect, the capital tax is paid only on its operating capital. STPC, is also required to pay 15% of its net surplus to the Treasury, of which a fixed amount of £s1.5 million is paid in advance (i.e deducted from its budget).

All enterprise managers interviewed attributed the poor performance and low productivity to lack of autonomy and lack of inputs. The MFEP, on the other hand, blames the corporation and all other PEs for mismanagement and lack of accountability. But, we found no evidence of constructive dialogue between the two to remedy the situation. In effect, the disputes have proved to be never-ending, and more important unproductive.

Case 2: Gezira Scheme

In the Sudan, the agricultural sector is the single most important productive sector of the economy, as it generates most of the country's foreign earning. In the recent years, however, the returns to the economy from the agricultural sector have been much below its potential, due to poor production performance caused by lack of agricultural inputs, inadequate incentives, inadequate water delivery and distorted macro policy, particularly the exchange rate.

The Gezira Scheme, established by the British Administration in 1925, spreads over 2.1 million feddans, and cultivates a number of crops, of which cotton is single most strategic crop, as most of the production is available for exports. In terms of administration, the scheme is divided into 107 blocks, each of which represents an accounting unit headed by an agricultural inspector. All the blocks maintain the same books of accounts, which would include: Cash Book, Day Book, General Ledger, Cash Receipt and Payment Vouchers, Stores Cards and Tenants Advance Book.

Traditionally, the scheme operated on a tenancy relationship between tenants, management and the government, often referred to as the "Joint Account System". However, the fact that this system does not reward good producers and in fact subsidised inefficient tenants, forced the government to change the production relations to an "Individual Account System", which was introduced in 1981/82. The system was mainly designed to provide adequate incentives for tenants to improve productivity, since rewards to tenants are directly related to output (i.e the tenants would receive their net proceeds in full). In addition, good producers normally receive wide publicity in the media. Under the new system, each tenant is personally responsible for all the production costs, and receives his net proceeds in full at a certain date, regardless of whether the crop was sold or not. Whereas under the old system, payment to tenants was effected after all the output was sold, which normally takes more than a year to be completed. This made the link between productivity and financial reward weak, and the real value of returns were eroded in the interim. Under the new system, the government receives an annual predetermined land and water rates, and acquires the whole output at a price set by a central committee.

The system works as follows: each tenant has a separate account wherein all advances made to finance agricultural operations and the tenant's revenues are recorded. The scheme management borrows from the Bank of Sudan to provide the advances, on which 8% interest charges are levied. These advances are assumed to be self-liquidating, in the sense that they will be repaid at the end of the season. However, this has seldom been the case, and the accumulated debts to the Bank of Sudan at the end of 1988 were £s1.2 billion. Tenants whose expenses exceed their revenues due to low productivity, are personally debited for the difference, and carried forward to the following season. In addition, there are indications that once tenants become indebted to the scheme, they tend to collude with others not in debt and sell their output indirectly through them, rather than to the scheme, and thereby avoid having to repay the debts (see chapter 10). In 1985/86 when the scheme was last audited, tenants debts were £s471 million, showing an increase of £s131 million from the year before(see below).

As it is, however, the new system suffers from a number of deficiencies, not least of which tenants have no control on how much cotton to be planted, which cotton variety to be planted, the selling price, the amount of fertilisers to be used, or the frequency of watering (i.e neither the cost structure not the selling price).

Organisation and Management

The scheme is organised as a public corporation, reporting directly to the Ministry of Agriculture. However, as all other public corporations, it is kept under a tight control, and the management has no autonomy over all the operating decisions. As all other PEs, salaries and wages are not related to productivity, and the personnel department has to observe all the civil service rules and regulations regarding promotion, creation of posts, etc. Finance is obtained from the MFEP after lengthy negotiations, the purchases have to follow the government purchasing procedures, and the annual budget is prepared in accordance with the government budget format and timing. Equally, the scheme, as all other PEs in the country, has no freedom to dispose of marginally-producing assets. Instead, an application must be filed to the "Disposition of Surplus Asset Department" of the MFEP, to arrange an auction for that purpose.

The Scheme Governor is appointed by the head of the state in consultation with the Minister of Agriculture, and there are no specific terms of office. By law, the Governor must hold a degree in agricultural sciences. Indeed, even his deputy is the agricultural manager. Moreover, at the block level, the agricultural inspector is the head of the unit, who must sign all cash receipts and payments, which hinders the smooth functioning of the accounting department. That is because, by the nature of his job, the agricultural inspector spends most of his time in the field, and is not available in his office to perform his administrative tasks. The Governor is supported by six main functional managers for agriculture, finance and administration, engineering, public relations, statistics, and internal auditing. Unlike all other cases, authority delegation throughout the scheme is quite adequate. Indeed, authority relations were established during the British Administration, and have remained as they are over the years.

Productivity

In the late 1970s and early 1980s, productivity decreased progressively, from 5 kantars per feddan in 1972/73 to only 2.1 kantars per feddan in 1980/81. Following the introduction of the new system in 1981/82, however, productivity improved remarkably to an average of 4 kantars per feddan (see below). However, it is difficult to attribute this turnaround in productivity to the new system alone. During the last decade, the scheme was under a massive rehabilitation project through foreign loans, which made possible the flow of imported inputs on a regular basis. At present, however, as foreign capital dried up, the supply of physical inputs (fertilisers, pesticides, insecticides and jute sacks) became irregular, due to the lack of foreign exchange in the country. Indeed, the senior management interviewed indicated that they spend quite a considerable time in Khartoum chasing finance, rather than managing operations and focusing on improving productivity. Another area that works to the detriment of production relates to the delivery of water to tenants. Some of the problems with water supply require long term solutions, such as the raising of "Roseires Dam" to enhance the water flow from the Nile. Others relate to the removal of silt deposits and weed growth in the canals. At present, this task is performed by the "Earthmoving Branch Corporation" - a PE - and as all other PEs in the country, the corporation suffers from the lack of spare parts and obsolete equipment. Indeed, there is no reason why this activity was not contracted out to the private sector. Finally, water management is the responsibility of the Ministry of Irrigation, and the relationship between the scheme and the ministry has been uneven, ranging from a happy marriage to a complete divorce, due to lack of specific legislation to that effect. The scheme has a fleet of agricultural machinery to provide agricultural services (eg. deep ploughing), at subsidised rates.

Cost of Production

Production costs of cotton have increased progressively in recent years. They increased from £s233.88 per feddan in 1981/82 to £s834.93 per feddan in 1986/87. The costs of agricultural inputs (fertilisers, pesticides and insecticides) represent around 50% of the production costs. They increased from £s117.13 per feddan in 1981/82 to £s396.9 in 1986/87. Other cost items are: Land preparation operations, plantation, harvesting, land and water charges, transportation to ginneries, and interest charges.

Under the new system, management has no financial stake in the profitability of the scheme, and hence has no incentives to control cost. All sales revenues accrue to tenants after deducting the production costs. Indeed, the management main concern is to increase productivity so as to maximise the country's foreign earnings, regardless off the cost incurred. Thus, as tenants have no say on the cost structure and no say on the selling prices, they tend to regard cotton as "the government crop", and hence exert more effort on other cash crops (wheat, groundnuts and vegetables) at the expense of cotton, the strategic crop. The ratio of tenants who failed to break even was 48% in 1987/88.

Administrative Expenses

Administrative expenses also increased in nominal terms from £s25.61 million in 1981/82 to £s53.5 million in 1985/86, which resulted in losses for the scheme. However, as we shall see below, in the last two years for which audited accounts are available (1984/85 and 1985/86), the scheme reported a net profit of £s17.8 million, which reduced the accumulated losses to £s16 million. The policy is to recover these expenses from the land

and water rates. However, the collection of these rates has become a major problem for the scheme. For example, while the recovery of the rates in 1985/86 and 1986/87 averaged about 80% of the amount assessed, they covered only 65% of the scheme costs. The MFEP officials argued that the rates are set too low, although they showed an upward trend over the years (see table 10.3). Nevertheless, increases in land and water rates are not a solution, since they would necessitate a corresponding increase in prices, which would add a burden on the Treasury. On the other hand, if prices were not increased to match the increase in costs, tenants might refuse to grow cotton. A long term solution is to try to cut administrative costs, (eg. through lay-offs). However, it should be noted that, the scheme is unable to collect land and water rates on other crops, which are directly sold by tenants. In effect , the rates on these crops are added to cotton costs and deducted from the cotton proceeds, which creates a distorted cotton costs.

The present pricing system, based on the cost plus principle, is in many years greater than the domestic equivalent of export proceeds, given the over-valued exchange rate (see chapter 12). Consequently, the state makes losses through the Sudan Cotton Company and the seasonal advances made to finance agricultural operations. These advances are supposed to be self-liquidating, but due to losses incurred by tenants and other illegal practices, collection proved to be difficult.

Financial Structure

The following tables summarise the financial structure and the operating results of the scheme in the years for which audited accounts are available.

From the tables below, the following observations could be made. First, the scheme relies heavily on external financing, which increased from £s910 million in 1984/85 to £s1277.8 million in 1985/86. This external financing is composed of foreign loans (£s48.7 million), Bank of Sudan (£s338.9 million), MFEP (£s74.3 million), and other various creditors (£s765.9 million).

Table 7.2
Gezira Scheme Financial Structure

Year	Capital £s (m)	Profit (loss) £s (m)	External Finance £s (m)	% of external Finance	Current Assets £s (m)	Current Liabilities £s (m)
1981 / 82	41.6	(5.3)	299.6	332.8	332.8	289.3
1982 / 83	41.8	(2.5)	388.0	405.4	405.4	350.7
1983 / 84	41.6	(0.9)	479.6	492.2	492.2	439.7
1984 / 85	41.8	(7.1)	910.0	929.3	929.3	873.6
1985 / 86	43.0	(10.7)	1227.8	1245.5	1245.5	1179.1

Source : Auditor General Report 1987/88

Table 7.3
Productivity and Operating Results

Year	Productivity *K/F	Expenses £s (m)	Revenues £s (m)	Tenants debts £s (m)
1981 / 82	3.87	25.71	20.39	78.5
1982 / 83	4.66	29.36	26.86	91.3
1983 / 84	4.92	38.31	37.41	125.8
1984 / 85	5.21	53.35	60.45	340.2
1985 / 86	3.60	47.72	58.42	471.2

*K: Kantar, F: Feddan

Source: Scheme Records

Second, chapter one expenses (salaries and wages) represent about 30% of total expenses, and almost 80% of operating expenses. The breakdown of administrative expenses is as follows:

Year	Chapter 1 £s (m)	Chapter II £s (m)	Chapter III £s (m)	Total
1981/2	7.19	9.35	9.17	25.71
1982/3	7.14	10.59	11.63	29.26
1983/4	8.39	16.54	13.38	38.31
1984/5	9.06	13.62	14.00	36.63
1985/6	11.01	18.82	23.70	53.53

The scheme employs around 20 000 staff, and it is difficult to say whether it is overstaffed or not, though the ratio of salaries to operating expenses appears to be high. However, it must be stated that the salaries and overhead expenses of agricultural inspectors are treated as administrative expenses rather than cost of production, and included in the scheme budget. Third, the current asset to current liabilities ratio is almost 1:1, but this does not mean that the scheme is able to meet its current maturing obligations, simply because a large amount of current assets is tied up in accounts receivables from tenants. The danger is that these debts might be written-off under union pressures and other political considerations. Finally, although the scheme has a comprehensive accounting system, an accounts manual, and sufficient number of book-keepers, its accounts are a number of years behind.

The arrears in accounts are largely caused by the centralised posting for all scheme transactions. The accounting data in the form of journal entries come to the Posting Office from all other accounting offices (stores, payments, tenants, general office). The Posting Office is supposed to post all the journal entries and produce a trial balance for the whole organisation.Our investigation revealed that this office represents the bottleneck of the accounting system. All journal entries coming to the Posting Office are first recorded in the Day Book. Accountants (around 26), each responsible for a ledger, compete for the Day Book, and those who fail have to stay idle until the Day Book is available. The fact that most journal entries are complex (affect more than one account), require a considerable time to post. Second, the flow of accounting data to the headquarters in delivered by vans on dusty, unpaved roads. Therefore any delays in delivery of data due to breakdown of vans or difficulties on roads, particularly during the rainy season, affects the smooth functioning of the accounting system[3]. Finally, the timing of budget preparation (April- June), coincides

[3] In 1989, the scheme introduced a telephone communication network covering the whole scheme, at a cost of $30 million, financed by Japanese loan.

with the preparation of tenants statements (payment of revenues), and hence overburden the accounting department. The scheme employs around 760 accountants, of whom only 56 have a university degree, while the others are school leavers with no background in accounting.

In June of each year, a group of 11 senior accountants perform the job of closing the accounts and preparing the annual financial statements: Balance Sheet, Production Account and the Administration Account. However, this job starts only when the whole posting is completed, which is years behind. Indeed, when we visited the scheme in May, 1990, they were posting the journal entries of 1987/88. In addition to extracting the final accounts, the team also has to allocate actual expenditures to various budget items, and then compare them with the budgeted items to calculate variances. However, since the accounts are years behind, the variances are not used for planning purposes.

Case III: Duty Free Shops Corporation (DFSC)

DFSC was established in 1970 to serve the following markets/customers:

1. *Conventional duty free goods.*
2. *The Sudanese working abroad (mainly household equipment/electrical appliances).*
3. *Residents (Sudanese/Expatriates).*

DFSC conducts all its transactions in dollars. However, occasionally it has been requested by the government to sell certain scarcity goods, such as foodstuffs, in local currency. Among DFSC's total trade volume for 1987, the most important product lines were: appliances (34.8%), foodstuffs (17.7%) and tobacco (13.3%). The main sales outlets are: Khartoum (3 shops), Port Sudan, Juba and Medani.

Institutional Environment

The Corporation's Act provided that "in the discharge of its functions, the corporation shall be bound by such directives on questions of policy as may be given to it by the Minister having regard to public interest". In the past, DFSC has been supervised by the MFEP. In 1989, however, that role was assigned to the Ministry of Commerce, Corporation and Supply (MCCS). But, the influence of the MFEP is still pervasive in a number of operating decisions. First is the remittance of revenues and taxes to the Treasury. In 1989, for example, the MFEP, presumably acting on information from the taxation department, wrote a letter to DFSC requesting payment of £s4.5 million capital tax for 1988.89, and some £s62.5 million defined as arrears in payment of the government's share in profits for previous years. The capital tax, as for all other PEs, is 5% on a capital account of £s0.5 million. Therefore, the capital tax, management argued, should be £s25,000. As for the share in profits, they noted that the amount required by the MFEP is equal to the net profits of the corporation in five years. Therefore, they maintained that this figure is incorrect, and hence refused to pay.

The custom department - part of the "extended family" of the MFEP - determines the percentage of duties on imported items. Similarly, the civil service chamber, another department of the MFEP, decides the salary scales, creation of posts, and staff promotion. Other government departments able to influence its operations include the Attorney General, the Auditor General, Ministry of Works and Public Utilities and the Mechanical Transport Department.

The MCCS in addition to its supervisory role, also grant import licenses for the DFSC. The management acknowledges a relatively flexible and expedient processing of its applications by the officials in the Ministry of Commerce. However, this is only valid in comparison with the time-consuming, lengthy, painstaking procedures for which other PEs are exposed. For example, for all items previously imported by DFSC, import licensing must follow all the normal procedures (6 steps), and not automatic. Moreover, import licenses are valid for only three months, which pose another constraint, because it is often difficult to finalise a transaction within this period. Therefore, the renewal of the license must be obtained. However, the DFSC is an organisation which deals primarily in buying and selling on dollar basis, and hence the import licensing requirement-introduced due to lack of foreign exchange is irrelevant.

Organisation and Management

The corporation is organised on functional basis, and the organisation structure is quite reasonable, given its size and nature of activities. There is little overlapping of responsibilities between functional departments, though divisional managers have no clear terms of reference. Moreover, the post of commercial manager has been vacant for a year, resulting in an additional load to the General Manager. However, it must be stressed that, even if a commercial manager is recruited, it appears that the span of control of the General Manager is rather large, with eight people directly reporting to him. The General Manager is an economist, graduated in 1977, and there are a number of functional managers who were graduated earlier than him, and most important have spent all their career with the corporation. To overcome this problem, they were all placed on the same grade, and receive the same salary. The internal auditor reports to the financial manager, and the responsibility for strategic planning is unclear, where most senior managers are contributing in one way or another. The board of directors reportedly has defended the corporation's autonomy, including budget approval. In this context it worth mentioning that, the last chairman of the board was the chairman of the Civil Aviation Authority, and not a representative of the sectoral ministry. At present, the boards of all PEs were dissolved in 1989, upon the change of government.

The main platform for management communications are the weekly meetings of the purchasing committee, the monthly meetings of functional managers, and, of course, the meetings in the context of annual budget preparation. However, the communication between the Purchasing and Sales Department leaves room for improvement. Not seldom, delays occur in notifying the Sales Department of the receipt goods by the Purchasing Department. A related weakness is the sole responsibility of the Purchasing Department for the in-country movement of goods.

The total number of staff is around 680, which is considered reasonable, given the size of its operation. However, DFSC suffers from the lack of qualified accountants, where all the accounting staff are school leavers, with no accounting background. Moreover, the officials complained that the stores and sales staff suffer from the lack of product knowledge and customer relations skills. As with all other PEs, DFSC has no autonomy over training, which is under the responsibility of the National Administration for Training. Similarly, as all other PEs, staff appraisal follows the government standardised appraisal forms. Indeed, all employees are found to be efficient, and hence receive their bonus and get promoted. The following table demonstrates this assertion.

Table 7.2
DFSC: Staff Scores
Between 1986 and 1988

Rating Range	1986		1987		1988	
	Number	%	Number	%	Number	%
90 - 100	320	62.3	426	75.3	473	86.0
79 - 89	116	22.6	90	16.0	42	7.6
68 - 78	34	6.6	33	5.8	26	4.7
57 - 67	21	4.1	13	2.3	8	1.5
46 - 56	23	4.4	4	0.6	2	0.2
below 45	-	-	-	-	-	-

Macro-Economic Environment

As we shall see in Chapter 13, the macro-economic environment in the Sudan is characterised by tight administrative controls over pricing, and over-valued exchange rate, and severe shortages of basic consumer goods. To a large extent, the DFSC has benefited from this distorted environment. The main elements of DFSC exceptional position are:

1. DFSC receives a relatively preferential treatment from government units involved in import licensing.

2. The Sudanese Working Abroad pay considerably less import duties on goods ordered through DFSC, than on goods brought home during or after their service abroad.

3. DFSC does not have to obtain the Bank of Sudan approval for transactions from its foreign exchange account.

4. At present, possession of foreign exchange is illegal, and any one entering the country must declare his foreign exchange, which can only be used to acquire goods from the DFSC or sold to the banks at the official rate, which is unwise.

5. DFSC does not face any price control on duty free goods. Indeed, only those goods sold on the government request in local currency reflect a direct price control.

Thus, compared to the vast majority of PEs, DFSC suffers considerably less from both external interference and the country's economic situation. This is largely due to its own profitability (see below), and the widespread awareness among the government agencies that, the operations of a corporation generating the much needed foreign earnings must be facilitated. Moreover, its type of business means that DFSC has much less need for specialised technicians, and the costly spare parts from abroad. Nevertheless, as all other PEs, DFSC has no autonomy over all personnel issues.

Accounts

The accounting books of DFSC consist mainly of a journal and a general ledger, and the financial statements prepared are the Trading Account, Profit and Loss Account, and the Balance Sheet. At present, the accounts are a few years behind, which the financial manager attributed to shortages of qualified staff. However, as in all other cases, a more fundamental reason seems to lie in the limited demand for accounting data. Second, the corporation does not have a continuous inventory system, which makes the task of providing frequent accounts and management reports rather difficult. Third, foreign exchange transactions are translated into local currency at the over-valued official exchange rate (£s4.5/$), which has the effects of exaggerating the operating expenses (see below). Fourth, the fixed assets of the corporation, notably land and buildings, are carried over at their historical costs in 1970, and hence the provision for depreciation is highly under-stated and unrealistic. Indeed, even its capital account (only £s0.5 million) is unrealistic. Finally, there is a long running dispute between the corporation and the MFEP regarding earlier tax exemptions, creating a taxation problem.

Budgeting

DFSC's fiscal year runs from on January to December, whereas all other cases follow the government budget timing of July to June. Nevertheless, the budget format follows the government budget structure (chapters I, II and III). This adherence to the government budgeting format, in effect, leads to more emphasis being placed on the justification of expenditures and little attention is paid to the planning format of the budget. Moreover, the corporation has no formal long range planning. The budgeting process is initiated by asking the Purchasing department to prepare a purchase budget, rather than starting by a sales budget, which is a common practice for commercial enterprises. Other departments also submit their budgets independently to the Financial Manager. In November of each year, the financial manager prepares a consolidated budget, which is presented to the General Manager for discussion and presentation to the board for approval. The board's approval of the budget, however, has always been an area of dispute between DFSC and the MFEP. But, it was reported that the board has successfully contested the MFEP's right to review and approve the budget. Finally, as in all other PEs, no variance analysis between plans and actual achievement has ever been performed.

Financial Performance

A review of the corporation's past performance reveals an impressive growth in turnover and profits. For example, on a 1987 turnover of £s87 million, its net profits amounted to £s15.2 million - thanks its monopoly position and more important the severe shortages of basic consumer goods in the internal market. Nevertheless, taking into consideration the fact that its dollar sales are translated into local currency at the over-valued official exchange rate of £s4.5/$, considerably distorts its financial position. For example, at the official rate, the ratio of labour costs to sales is about 6%. Therefore, had the corporation been allowed to translate its foreign earnings at the more devalued commercial rate of £s12/$, its financial position would have been much stronger, and the labour costs insignificant. Nonetheless, unlike all other PEs in the country, its liquidity position has been healthy over the years, its financial structure is free from debts (except the dispute over the tax liabilities mentioned earlier), and external interference is relatively minimal.

Case IV: Sugar Industry

In the Sudan, sugar is characterised by extremely high consumption - in the neighbourhood of 24kg per capita compared to an Africa-wide of about 16kg per capita (Sugar Trading Corporation). In a bid to satisfy local demand, and even export sugar, the government established two sugar estates at Guneid and New Halfa in the early 1960s, followed by the establishment of two other estates at Sennar and Assalaya in the mid 1970s. In addition, a large joint venture sugar complex at Kenana was established in 1979. The five sugar estates have a designed capacity of 685 tons of sugar per year, of which Kenana alone has a capacity of 330 tons.

Guneid Sugar Company

The Guneid sugar company is almost 30 years old, and has a designed capacity of 60,000 tons of sugar a year. It consists of a sugar cane farm (37000 feddans), canals and a factory. The company achieved its peak performance in the mid 1970s (55070 tons), but since then production has fallen to its lowest levels ever. Although well laid out, parts of the factory are in a bad state of repairs, due to lack of spare parts to replace obsolete and worn out equipment. The factory efficiency has now fallen to a stage where more than 10% of the recoverable sugar is lost, because of: (i) poor milling efficiency due to poor operation of the hydraulic equipment, (ii) sugar losses due to poor condition of vacuum filters, and (iii) high losses due to start-stop operations, caused by lack of cane or power. In addition, the bagasse storage is inadequate, the laboratory and workshop equipment are inadequate, and the factory roof leaks resulting in severe damages to machinery.

Institutional Environment

The responsibility for sugar production in the Sudan is divided among a number of government departments, without any central unit to coordinate between them. These include: the Ministry of Industry responsible for the overall sector policy; Ministry of Irrigation responsible for water management; Ministry of Agriculture responsible for the sugar cane research, Ministry of Finance responsible for providing finance, setting selling prices, labour policies and marketing; Ministry of Energy providing the power supply; Mechanical Transport Department providing vehicles and agricultural machinery to the sugar companies. These are only a sample of government agencies that are able to influence the operations of the sugar estates, with no central unit to provide any effective coordination. In the past, the coordination function was performed by the "Sugar and Distillery Corporation", which was liquidated in the early 1980s as part of the legal restructuring process (see chapter 10).

Organisation and Management

As all industrial PEs in the country, the Guneid factory was converted from a public corporation to a private limited company under the 1925 Companies Act. It reports directly to the Ministry of Industry, and its shares are owned by the MFEP(99%) and ElNilein Bank(1%). However, for all practical purposes, the company is still operating under all the same rules and regulations governing public corporations. Indeed, the implementation of the legal restructuring was flawed in all respects. There was no financial restructuring, no changes in accounting or management practices, no changes in staff or salary scales, no central unit to coordinate between the sugar companies, or even clarification of the company's objectives. For example, according to the 1925 Companies Act, all the staff should have been liquidated and reappointed under individual contracts. The companies should have been freed from the imposition of salaries by the state to enable them to set their salary scales as they see fit so as to attract and retain competent staff, and to link pay to performance. But, as we shall see in chapter 11, that never happened, due to political reasons. In effect, management has no autonomy over all operating decisions (financing, pricing, labour policies, purchasing), which are determined at the central level, particularly the MFEP. The company prepares its accounts according to the government accounting systems, and its annual budget follows the government budget format and timing. Budget approval is performed by the MFEP, and according to the financial manager is subject to irrational cuts. At the company level, timely performance reports are not prepared regularly, and detailed analysis comparing actual results with plans does not exist.

The General Manager is appointed by the Prime Minister in consultation with the Minister of Industry, based on no transparent criteria, and usually comes from the engineering ranks. The personnel manager indicated that in the last decade, the company has had four General Managers. The General Manager is supported by functional managers for agriculture, factory, finance, personnel, public relations, and welfare and social security. However, there are no specific terms of reference for functional managers and authority delegation is extremely poor. Indeed, when we went to meet the General Manager, we had to wait in a queue of functional managers, each coming to consult him on routine operating decisions, such as fuel distribution, overtime premiums or movement of cars. Team meetings with the General Manager occur primarily at the budget time, the internal auditor reports to the financial manager, and the responsibility for cane transportation is unclear, hindering the flow of cane to the factory. The total number of staff is around 2500, which all managers interviewed consider to be rather high, given the present level of capacity utilisation. Nevertheless, given the numerous difficulties they face, the poor working conditions, and the sharp deterioration in real income, morale is unduly low and turnover is very high.

Capacity Utilisation

As the following table reveals, the company achieved its peak production in the mid 1970s. But, since then, sugar production has declined sharply.

Year	Production(tons)	Year	Production(tons)
1970/71	18,460	1980/81	29,601
1971/72	37,080	1981/82	15,744
1972/73	28,345	1982/83	20,130
1973/74	42,133	1983/84	22,699
1974/75	45,268	1984/85	14,905
1975/76	52,727	1985/86	19,731
1976/77	54,155	1986/87	28,956
1977/78	55,070	1987/88	26,995
1978/79	48,500	1988/89	22,673
1979/80	36,539		

Source: Public Corporation for Sugar Company

At present, the company is operating at about 30% of its capacity (60,000 tons). The General Manager gave the following main reasons for the sharp decline in production. First, the unrealistic pricing policy adopted by the government without any due consideration to either production costs or economic efficiency. In 1987/88, for example, the cost of production per ton was £s1325, while the transfer price to the Public Corporation for Sugar Trading was only £s850. Similarly, in 1988/89, a national committee formed by the government recommended a transfer price of £s2750. But the transfer price adopted was £s1900, though the cost of production per ton was £s2246. As a result, the company failed to purchase its essential inputs or maintain its assets. Moreover, the financial manager asserted that the annual budget is usually subject to cuts by the MFEP, the company is unable to borrow from either the Bank of Sudan or the commercial banks, and at times, the government announces salary increases or bonus payments in the middle of the season and requires the company to finance such payments from its resources. In most cases, therefore, the limited amounts allocated for operations are transferred to the payroll department due to fears of strikes. The company is unable to borrow from commercial banks due to its poor financial position, and the Bank of Sudan does not extend credits to companies.

A second reason is the lack of foreign exchange, contributing to lack of spare parts, and hence poor maintenance of factory equipment and agricultural machinery. Third, insufficient supply of irrigation water due to frequent power failures, and inadequate provision of fertilisers, pesticides and other cultivation inputs. Indeed, about 60% of operating costs require foreign exchange for imported inputs. Fourth, severe shortages of seasonal workers for cane cutting, due to the poor pay rates under the civil service rules. The legal minimum wage rates allowed for the unskilled workers (grade 18) are £s300 a month (£15), which the personnel manager argues, is entirely uncompetitive. Fifth, loss of skilled staff and highly trained technicians, due to sharp deterioration in real income and lucrative job opportunities abroad.

Marketing

The purchase and marketing of sugar is a government monopoly, under the Public Corporation for Sugar Trading (PCST), which is responsible for purchasing all local production, importing sugar, distributing sugar throughout the country, and selling at specified wholesale prices. PCST acquires the entire local output, and operates a network of storage depots in all major towns. Levels of permitted consumption are determined annually in the form of regional quotas by the MCCS, which is meant to ensure that the sugar is available throughout the country at the legal price. In practice, however, an unofficial market has developed, because supplies to remote regions are inadequate. In effect, much of the sugar appears to enter this market after leaving PCST's control. But, with the current information systems, it is difficult to trace sugar losses.

Financial Performance

The last time the company was audited was in 1983/84. Therefore, the following financial indicators are somewhat outdated, but they might give an indication of the company's financial performance.

Capital	*£s 10.2 million*
Working capital	*£s(19.9) million*
Accumulated Losses	*£s 66.0 million*
External financing	*£s100.7 million*

Ratio of losses to capital: 660%

The company's most recent budget (1988/89) showed the following facts:

Chapter I	*£s10.118 million*
Chapter II	*£s26.793 million*
Revenues	*£s30.141 million*
Net Surplus	*£s(6.77) million*

Thus, it is evident that the company is technically bankrupt due to the huge accumulated losses, which wiped out its capital. However, one must caution against this conclusion because no revaluation of assets has ever been made, despite the fact that the country experienced hyper inflation rates, and the currency was devalued many times during the last decade. These losses were caused, in the main, by the rigid pricing policies, low productivity, and lack of incentives and autonomy to control costs. Nevertheless, it must be repeated that the arrears in accounts and the price controls, among others, denied any simple conclusion regarding the company's financial performance. But, the limited available data, such as its 1988/89 budget, suggest that it is incurring losses.

The whole sugar sub-sector is currently under a massive rehabilitation project financed by foreign loans, at a cost of $183 million. However, for a variety of reasons (see Chapter 11) the rehabilitation project has so far failed to produce a significant turnaround in sugar production.

Case V: The Friendship Textile Company

This is an integrated textile plant established by the Chinese in the mid 1970s, and located at Hasaheisa in the central region, largely to promote regional development. It was part of the Public Corporation for Textile Industries, and when the corporation was liquidated as part of the legal restructuring of the industrial PEs, it was organised as a private limited company, whose shares are owned by MFEP (99%) and the Unity Bank (1%). However, as all other PEs converted into companies, there was no financial restructuring prior to legal restructuring. In effect, its inherited poor financial structure considerably hampered its performance. As a company, it cannot borrow from the central bank, and is unable to borrow from the market, because of its poor financial position. Therefore, it relies entirely on the Treasury financing, which the Financial Manager says, is obtained after lengthy, painstaking negotiations. Equally, no changes were introduced regarding its accounting systems, budgeting, staff, salary scales, or even clarification of its objectives.

The General Manager is an economist, which is rather unusual in industrial sector, where chief executives normally come from the engineering ranks. He is supported by six functional managers for finance, sales, personnel, maintenance, transport, public relations and a deputy. Authority delegation is reported to be quite reasonable, and the functional managers stated that they meet regularly. However, this situation is attributed to the present General Manager who, all managers interviewed argued, encourages participative decision making. Indeed, when we visited him, we noted that his desk was empty of bulky files, which characterise most senior manager's offices in the Sudan. Yet, there are no specific terms of reference for functional managers, which cast doubts on the continuity of this situation. Moreover, we noted that his deputy and the Maintenance Manager have virtually identical roles, and it is not clear whether both are needed. Similarly, supervisors and some of their subordinates are in the same grade, with no clear role for each. The internal auditor reports to the financial manager, and as all other PEs, there is no board of directors at the moment.

The company employs around 2000 staff, which appears to be rather high, given the current level of capacity utilisation (see below). As we shall see later, the budgeted salaries for 1988/89 are almost equal to the operating expenses, but this is a poor indicator of over/under-staffing, since textile is normally a labour-intensive industry. Nevertheless, the personnel manager indicated that staff turnover, especially among technicians, is very high. Apart from the brain drain to the Gulf, the local private sector is well established, and offers better salaries. Indeed, the personnel manager asserted that his monthly salary is around £s 2000, whereas his private counterpart earns as high as £s 7000, which we were unable to verify. The quality of staff, however, needs careful review, and there is no systematic evaluation of the training needs.

Financial Performance

The company has no costing systems, no inventory control systems, and its accounts are years behind. The accounting staff are predominantly school leavers with no background in accounting. The last time the company was audited in 1983/84. The following key figures indicate its financial position at that time:

Capital	*£s 14.6 million*
Working Capital	*£s 1.3 million*
Accumulated Losses	*£s 6.5 million*

The company's most recent budget (1988/89), showed the following facts:

Chapter I	*£s 8.5 million*
Chapter II	*£s 9.3 million*
Revenues	*£s 19.8 million*
Net Surplus	*£s 2.0 million*

The financial manager attributed the arrears in accounts to lack of qualified accountants, and the company's poor performance to the rigid pricing, low productivity, and dramatic increase in production costs caused by inflation and devaluations, which were not matched by a corresponding increase in selling prices.

Capacity Utilisation

The plant is over 15 years old, and the General Manager indicated that maintenance has been irregular due to lack of spare parts. It has a designed capacity of 18 million yards per year when operated on two shifts basis. It is currently operating on one shift, at less than 30% capacity due to lack of raw materials, imported inputs (chemicals, lubricants, etc), and irregular power supply. The company relies entirely on the Sudan Cotton Company for its raw material supply. But, as cotton is the country's main export, priority is given to export, while local consumption is allocated the lowest grades that are unsuitable for export. Moreover, the Sudan Cotton Company normally insists that local factories must acquire all their annual needs at the start of the season and must pay in cash. However, the financial manager argued that the company usually faces a severe liquidity problem, and it is impossible to pay for all its annual needs in cash. In addition, the storage and insurance are very expensive. He explained that the annual budget is paid in 12 monthly instalments, subject to cuts by the MFEP, and the company is unable to borrow from commercial banks. He further added that, spare parts in the local market are not available at the legal price, and the company has to acquire them at much high prices, which are not budgeted for. For example, the legal price of a tyre is £s 300 and a dry cell £s 450, but they are traded in the market at £s 3000 and £s 5000 respectively. These differences are not accounted for in the budget, hence they create severe liquidity problems. The company faces fierce competition from private producers and smugglers, and is unable to compete effectively.

The whole textile industries are currently under a rehabilitation project, financed by the Kuwaiti Government, at a cost of KD16.5 million. But, the Government of Sudan sided with Iraq in the recent Gulf crisis, and it is not known what effects that might have on the rehabilitation process.

Case VI : Sudan Airways Company

Organisation and Management

The company was established by the British Administration in the early 1950s, and since then has experienced a series of organisational changes, ranging from a government department, to a public corporation, to a private limited company. Similarly, sectoral supervision changed from the Ministry of Defence, to the Council of Ministers, to the Ministry of Transport. At present, it is organised as a private limited company, whose shares are owned by the MFEP (99%) and the Sudan Development Corporation (1%), and supervised by the Ministry of Transport. However, as all other PEs converted into companies, it is still operating under all the rules and regulations governing public corporations. Unlike public corporations, however, the company has a different salary scale, set by the government in consultation, but not through negotiation, with the company, basically to allow the company to hire competent staff so as to compete effectively in international market in which it operates. But these salary scales failed to keep pace with inflation and the continuous devaluation. Until mid 1980s, the engineers were given part of their salaries in hard currency, but that arrangement was suspended in 1987 in accordance with the law issued by the Council of Ministers, which ruled that all local obligations must be met in local currency. The decision was met with a series of industrial actions, and consequently led to loss of most experienced and highly trained engineers.

The present General Manager is an engineer, who has spent all his career with the National Electricity Corporation. In contrast, his predecessor has a vast experience in the aviation industry, where he used to work with the Gulf Air for 10 years, and hold a Ph.D in Business Administration. He was removed for political reasons. In the last decade the company has had five General Managers, and with every change in management, several organisational and personnel changes took place. Indeed, by the time we visited the company, all senior management were newly recruited, and the company was undergoing major reshuffles. The total number of staff is around 3000, but staff turnover, mainly engineers, is reportedly very high.

Capacity Utilisation

The General Manager asserted that the company's main assets, (planes) are very old, very poorly maintained, and in urgent need for replacement. The company has only four planes that are capable of flying abroad (Boeing 737), but with each flight massive ad hoc repairs must be made, and it is not unusual for a flight to be postponed or cancelled in the very last minute. In effect, the operating costs are very high, and the financial manager reported that the sudden breakdown in outside stations costs the company vast sums of money in terms of airport fees and hotel expenses. The company used to lease planes from other carriers, but the financial manager stated that this alternative is uneconomic, given the fact that the number of passengers has dropped sharply. He added that the lease fee per annum is quite sufficient to rehabilitate all existing planes. At one time, the company also entered into an agreement with ZAS (an Egyptian private carrier) to use its route to London on profit sharing basis. But, the financial manager indicated that, as the company failed to ascertain the cost items, its profit share was minimal, and that is why the contract was cancelled. He also asserted that, the company does not want to lease this route, because its presence on this route is essential.

The company's main international routes are Egypt, the Gulf and London, though the latter has been subject to on-off operations. In fact, we understood that, at times it was refused landing at Heathrow, because it failed to pay the airport fees for many years. The company has a monopoly position in internal routes, but is unable to satisfy demand, due to lack of spare parts and fuel shortages. There are no price controls on its international flights, it enjoys a considerable degree of flexibility in fixing its fares, subject to the approval of the sectoral minister. However, like STPC, it has a limited freedom in using the foreign exchange it generates. But nevertheless, the financial manager indicated that all its foreign earnings are not sufficient to meet its operating needs given the poor state of its assets. For all these reasons, therefore, the company's flights are totally unreliable, its public image is poor, and consequently the company lost its markets to other competitors. Indeed, those who travel with the company are either the government employees who are obliged by law to use its services, or the private travellers who are unable to purchase tickets in hard currency from other international carriers. As international carriers failed to repatriate their accumulated earnings in the Sudan, they limited the number of passengers paying in local currency per flight, just to cover their local obligations. Indeed, for this single reason, a number of international carriers, such as Swiss Air and the British Airways, have suspended their flights to Khartoum.

Financial Performance

The company's accounts are years behind, has not been audited since 1979/80, and the internal control system is utterly poor. Indeed, the assistant Auditor General for public corporations pointed out that, the Sudan Airways Company is one of the most problematic cases in the whole public sector. "We know nothing about it", he added. Therefore, we failed to obtain reliable information regarding its financial performance. However, the company's most recent budget (1988/89) showed the following facts:

Chapter I	*£s 60.0 million*
Chapter II	*£s 369.5 million*
Chapter III	*£s 24.9 million*
Revenues	*£s 480.5 million*
Net Surplus	*£s 26.1 million*

Moreover, from the company's records for 1984/85 (not audited), we found that its accounts receivables from other government units were £s 750 million. The financial manager attributed this situation to a policy, only recently abandoned, where government units were not required to pay in cash for the services provided by the company. Instead, they simply issue a letter to the company requesting tickets for their staff on credit[4]. But, such debts were never collected, which the financial manager argued, should have been cleared prior to the legal restructuring. Nevertheless, he asserted that the company has no liquidity problems to meet its local obligations. The company's internal flights, and to a lesser extent its external flights, are generating sufficient resources in local currency. But the problem is foreign exchange to acquire spare parts and fuel. At present , the company relies heavily on the Bank of Sudan for its foreign exchange needs.

Admittedly, this last case was probably the most demanding of them all. There is a complete lack of records in any one place, and all senior management were newly recruited, and hence not yet acquainted with the internal operations of the company, or the industry as a whole. Indeed, in all cases, the lack of records and the high turnover of senior management was the norm, which made data collection at best difficult. Apart from the brain drain to the Gulf, the dismissal of top civil servants on political grounds is quite extensive, creating a sense of malaise, apathy and disinterest. In fact, in most cases, the most

[4] According to the civil service rules, all civil servants in grades one to five, including their families, are entitled for air tickets each year, to anywhere in the country.

experienced PE staff who have spent all their careers in PEs, have either been dismissed or transferred to the headquarters in Khartoum, with no specific duties to perform. To gather as much data as possible, we spoke to a number of ex-managers of various PEs, and indeed that proved to be more informative and gave us detailed account of their former PEs.

At the macro level, although there are bureaus responsible for PE's operations in all sectoral ministries, and the MFEP, they lack any comprehensive knowledge on the number of public enterprises, their financial position, number of employees or the government equity in each. Indeed when reviewing the annual budgets, neither the MFEP nor the sectoral ministries obtain the actual achievements to compare them with the plans. Clearly this indicates that the flow of information between PEs and the central government leaves much to be desired. In contrast, the Auditor General Chamber does not obtain the annual budgets to be compared with the actual results, though such a comparison is likely to be meaningless given the accumulated arrears in the accounts of all PEs. Nevertheless, it clearly demonstrates that efficiency auditing in Sudan is not accorded much importance. In fact, it appears that the main concern of auditors is to ensure that PEs conduct their transactions in accordance with the rules and regulations stipulated in the Financial Regulations Act, 1977, basically to safeguard public money against fraud. Equally, there is no any central unit within the government to monitor and analyse the inter-enterprise accounts which have grown out of all proportion.

In a reply to the allegations made by all financial managers that, the annual budgets are subject to irrational cuts at the MFEP, the Director for Budget asserted that the annual budgets of all government departments, including PEs, are normally highly inflated. Therefore, these cuts are necessary because the available resources are limited. He then cited the following example: "for the last three years I have been in charge of this office, we used to cut chapter one expenses of all government units, including PEs, by 15%, and yet no enterprise has ever complained of this practice. This clearly indicates that PEs normally inflate their budgets to pay bonuses and other allowances for their staff, though all PEs are incurring losses". In all fairness, the fact that PEs are incapable of promptly producing evidence of the real underlying financial position, due to lack of management information system and up-to-date certified accounts, considerably strengthen the MFEP's argument.

Case VII: Private Enterprises

We also visited two private firms, basically to identify, in broad terms, the similarities and differences with PEs. Our main concern was to answer the question regarding the relevance of privatisation to the Sudan. Therefore, we concentrated on the broader environment within which both sets of firms operate.

These enterprises were the International Tyre Manufacturing and Distributing Company (ITMD), and the Sudan Arab Oil and Soap Company. The ITMD is a private joint venture between a Sudanese entrepreneur (chairman) and the South Korean Dawoo corporation, which started operations in 1980. However, we failed to get its articles of association on confidentiality grounds. The company is fully protected from competing imports, and is the only tyre manufacturing company in the country[5]. Also, we failed to get access to the company's financial records, but we were told that the company is in a sound financial position.

The Sudan Arab Oil company is a joint venture between the Government of Sudan and the Arab Authority for Agricultural Investment and Development (an Arab Investment company established by the Arab league in 1980 to supply the Arab countries with food-stuffs). It used to be a public corporation and became a joint venture in 1983. However, we failed to get its articles of association,how much was paid to the Government, and we were

[5] There are rumours that the previous President (1969-1985) is a major shareholder, and this is why the company was granted a monopoly position.

not allowed to investigate its financial records. But, we were told that the company is in a healthy financial position, and does not face any external interference. The General Manager is a Sudanese, while the chairman of the Board of Directors is a Kuwaiti.

As regards the external environment within which they operate, the officials in both companies made a number of complaints. First and foremost both companies complained about the rigid and unrealistic pricing policy for both inputs and output adopted by the government, and the allocation of foreign exchange for their imported input needs. The pricing of both companies products is determined by the Ministry of Industry on the "cost plus basis" (see chapter 12). Similarly, both companies obtain their foreign exchange needs from the Foreign Exchange Allocation Committee, which they consider to be time-consuming, and considerably hinders their operations. Indeed, when we visited them, both companies showed us valid import licenses, which the government failed to honour with foreign exchange. They told us that, in the past they used to acquire their foreign exchange needs from the open market at the market rate, and import their input needs. Although such a rate was not recognised for pricing purposes, they were able to stay in business, be it at a loss. This financing practice is now suspended because possession of foreign currency is illegal and violaters executed.

However, this is not to suggest that this solution was not without problems. In 1988, as ITMD incurred losses, it halted its sales on the grounds that the legal price is uneconomic. In particular, the officials complained about the official exchange rate used for pricing purposes, which is far below the market rate. They noted that, in 1987, the company was allocated only $10 million, whereas it needed $30 million per year to acquire its imported needs (the company relies entirely on imported raw materials). In turn, the authorities raided the company's stores, confiscated all the tyres (under the Hoarding of Goods Act) and arrested the chairman and two of his deputies. A few weeks later, a compromise solution was reached, whereby the exchange rate was raised to £s 9.75/$, and the company resumed its sales. However, the officials claimed that the problem is far form over. They correctly noted that the market price for a tyre is way ahead of the legal price due to the excess demand. They pointed out that apart from the unrealistic prices, the real issue is the availability of foreign exchange on a regular timely fashion to enable the company to operate at reasonable levels of capacity. The chairman pointed out that the company is currently operating at less than 50% of its designed capacity, though demand by far outpace supply. The same line of argument was made by the officials in the oil company, where the company is reported to be operating at an average of 30%. Indeed, both companies reported that the excess demand is being exploited by the middlemen, at the expense of legitimate producers. For example, the legal price of a box of soap (45 pieces) is £s 70, but is traded in the black market at than £s 200. The same applies for tyres, dry cells and other basic consumer goods.

Second, the officials in both companies complained about the lengthy procedures involved in reviewing prices by the Ministry of Industry. They asserted that by the time a price adjustment is granted, the ever rising inflation rates and the continuous devaluation would necessitate another application to be submitted. Indeed, the financial managers in both companies asserted that the file preparation for price adjustments takes a considerable time at the expense of their normal duties. Moreover, the officials in the oil company stated that price determination is not firm-specific, i.e the Ministry of Industry usually sets one price for the whole oil and soap produced in the country, regardless of the cost structure of the firm that produced the commodity. To change this price, they argue, requires detailed checks on each cost item, which is cumbersome and time-consuming.

A third complaint by both companies related to power supply, which they claim, is irregular and unreliable. Both companies have generator sets, but the frequent fuel shortages have rendered even this costly alternative inadequate. The officials noted that, apart from the production loss, the sudden power cuts while the machines are operating, cause serious damages to the machines, which would take time to repair, if the required spare part is not available in the local market. Both companies reported that, they have no marketing problems, as demand by far outpace supply. In fact, at times of scarcities, which is quite often, both companies have to submit all their output to the local authorities to be distributed according to a rationing system.

We failed to get the salary scales for either company. There is a legal minimum wage rate of £s 300 a month. But, both companies reported that they are actually paying their unskilled staff higher rates, though they refused to say by how much. This is rather an unusual phenomenon for a developing country, where one normally finds the private sector paying unskilled workers the minimum rate, while paying substantial premium to skilled categories. But, in the Sudanese context, the finding is consistent with other pieces of evidence indicating the tightness in the labour market, even for the unskilled staff: the inability of the Guneid Sugar Company to attract seasonal workers for cane cutting is a case in point. The only way in which private companies have apparently been affected by the minimum wage legislation is that, whenever the government adjusts the minimum wage rate, trade unions normally demand an equal increase, even though their wages are already above the new rate. Moreover, at times the government grants all employees in the country certain payments and ask private employers to do the same , as happened on the first anniversary of revolution in mid 1990 (see chapter 13).

The only complaint that the officials in both companies have expressed against the existing labour legislation is that, it is difficult for them to dismiss workers. The Individual Relations Act, 1981, stipulates that in order to dismiss a worker, the employer has to give him three written warnings over one month suspension period. He then has to appeal to the Commissioner of Labour, who may approve the request, in which case the worker can be dismissed. On the other hand, if the request is not approved, the employer must terminate the suspension, or pay the worker for the one month suspension and also six month's gratuity before dismissal. The officials in both companies argued that the whole procedure is time consuming, cumbersome and expensive. They asserted that it is difficult to make a reasonable case before the Commissioner since this requires witnesses, who usually come from the worker's side and unlikely to testify against a colleague. They further complained that the Commissioner always sides with workers, which we were unable to verify.

As regards the internal operations of their entities, the officials in both companies reported that they have complete freedom to operate their companies. There is no requirement to follow government budgeting format and timing, the government accounting systems, or the purchasing procedures. They raise finance from the open market, and their investment/expansion policies are approved by their boards of directors.

Chapter Eight

Evolution, Size and Performance of PEs in the Sudan

Since the primary objective of this research is to investigate the various measures devised to improve the performance of PEs, and the scope and relevance of privatisation to the Sudan, we do not intend to provide a detailed account of the evolution of PEs. Indeed, we will discuss briefly the structure and performance of PEs solely to identify their implications on privatisation.

The structure of the chapter is as follows. In the first two sections we will outline the historical development of PEs, and the rationale for their establishment. Section three will be devoted to the size and productivity record of PEs. The final section examines briefly the financial performance of PEs. For the most part of this section, reference will be made to the cases presented in chapter 7.

8.1 Evolution of PEs

As elsewhere in DCs, the Sudan inherited a number of PEs at the time of independence, such as the Gezira Scheme, the Sudan Rail, Airlines and Electricity. Thereafter, the successive national governments have established a substantial number of PEs in the various sectors of the economy, basically to accelerate economic development. At the post-independence, however, the structure of the economy has changed from full reliance on private initiatives to primary reliance on public ownership, including nationalisation and confiscation of private firms. As we shall see below, these changing views on the structure of the economy are attributed to both ideological and pragmatic reasons. In what follows, we will provide a brief account of that history in a chronological order.

Prior to 1956 (independence date), the private sector initiatives were the dominant force in the economy, and indeed remained for years to come. At independence, the first national government (1956-1958) was preoccupied with laying down the foundations of an independent state (e.g the constitution, the Sudanisation of posts and the like). On the economic front, "The Approved Enterprises (concessions) Act, 1956", was issued, which provided a system of incentives to encourage local and foreign investment. The incentives package included tax exemptions for an initial specified period (tax holidays), duty free imports for inputs and machines, low rates on public utilities and land rent, as well as protective tariffs. These incentives, however, remained unchanged in all the subsequent investment codes that followed in 1967, 1972, 1974, 1980 and 1990. Nevertheless, no PEs were created, and the private initiatives continued to be the engine for economic development.

In 1958, however, a military coup took place, which started the first steps of state participation in economic activities. Indeed, in 1960, a Ten-Year Economic and Social Development Plan (1960/61-1970/71) was issued, which called for direct state ownership in areas that are "unattractive for private investors". Consequently, nine factories were constructed, the Approved Enterprise (concessions) Act, 1956, was replaced by the "Organisation and Promotion of Industrial Investment Act, 1967", and the Sudanese Industrial Bank and Agricultural Bank were established to provide finance for industry and agriculture. The move, however, did not signify any shift in the basic philosophy, but rather reflected the desire to diversify the base of the economy, rather than relying solely on agriculture. Indeed, there was no political motivation behind the move, and there were no nationalisation of foreign firms. The main reasons behind the establishment of the nine factories were to take the country along the road towards industrialisation, to invest in areas that exceed the capacity of local private investors, and more importantly to promote regional development, which is quite evident from the distribution of the nine factories (see table 8-1).

Thus, the private sector had virtually a monopoly position in light industries, such as textile, oil and soap, cement, shoe making, and cigarettes, with an estimated investment of £s 77 million **(Abu Affan, 1986)**. The public sector, on the other hand, gained a monopoly position in the sugar industry, and a significant portion in the food industry, with an estimated investment of £s 24 million (table 8.1).

Table 8.1

PEs Constructed between 1960 and 1969

Factory	Region	Estimated Cost (£S 000)	Creditor	Start of Construction
Karima Dates Factory	Northern	850	Russia	1960
Khartoum Tannery	Khartoum	1003	Yugoslavia	1962
Guneid Sugar Factory	Central	10460	West Germany	1962
Aroma Cardboard	Eastern	720	Yugoslavia	1963
Halfa Sugar Factory	Eastern	8312	West Germany	1964
Onion Dehydration	Eastern	605	Russia	1966
Karima Fruit Industry	Northern	1088	Russia	1967
Wau Fruit Factory	Southern	1000	Russia	1967
Babanousa Dairy	Western	1050	Russia	1967
Total		£S 24098		

Source: **B. Abu Affan (1986)**, "Industrialisation policy in the Sudan", Khartoum University Press.

In the 1970s, however, PEs expanded substantially not only by the establishment of new PEs, but also through nationalisation and confiscation of a wide range of private firms in both industrial and agricultural sectors. Thus, the dramatic expansion of the sector was, by and large, politically motivated. Indeed, in his first broadcast after assuming power through a military coup on May 25, 1969, "Colonel Nimeri" declared that "time has come to set the country on the road to freedom, equity and socialism". To achieve that, the government, backed by the Communist Party, launched a comprehensive programme of nationalisation and confiscation of a large number of private firms. The objectives of these nationalisation and confiscation measures were "to ensure state domination of the agricultural and industrial sectors, and to liberate the economy from the grip of foreign firms" (**The Nationalisation Act, 1970**). These measures, in turn, increased the number of industrial PEs from only 9 in 1969 to 47 in 1971, representing around 60 percent of total investment in the sector, compared to only 23 percent in 1969 (**Abu Affan, 1986**). Subsequently, the government made substantial investments in new PEs, basically "to distribute wealth throughout the country, and to achieve self-sufficiency in basic consumer goods, such as sugar, food and popular cloth" (**The Six Year Plan, 1970/71-1976/77**). Indeed, between 1972 and 1979, some $900 million were invested in the industrial sector alone (table 8.2).

However, the government soon reversed its economic policy, and the political dogma began to give way to pragmatism. The change of policy was solely attributed to the fact that, the Communist Party, the main supporter of the new regime, arranged a military coup in mid-1971, which collapsed after only three days, and "Nimeri" was reinstated. Consequently, the government returned most of the confiscated enterprises to their original owners. Indeed, only five enterprises of those confiscated were retained for no clear reasons. These were the Nile Cement Company, Maspio Cement Company, the Blue Nile Packing Company, Rea and KiriKab sweet factories. (The latter two were offered for sale since the early 1980s but without much success so far, as we saw in chapter 6).

Table 8.2
Industrial PEs Constructed between 1972 and 1979

Factory	Cost (£S 000)	Start of Construction	Start of Operation	Region
Abu Na'ma Kenaf	7,000	1972	1976	Central
Assalaya Sugar Factory	30,000	1974	1979	Central
Duem Weaving Shed	5,000	1974	1979	Central
Gadow Textile Mill	34,000	1975	not yet	Northern
Gezira Tannery	2,800	1972	1977	Central
Haj Abdalla Spinning	20,000	1974	1981	Central
Hasaheisa Textile Factory	4,000	1972	1976	Central
Kadogli Weaving Shed	5,000	1974	1979	Western
Khartoum Central Foundry	,300	1971	1975	Khartoum
Khartoum North Spinning	10,700	1975	not yet	Khartoum
Kosti Weaving Shed	5,000	1974	1978	Central
Mangala Weaving Shed	5,000	1974	1979	Southern
Mangala Sugar Factory	26,000	1974	not yet	Southern
Malakal Tannery	,828	1973	not yet	Southern
Nyala Weaving Shed	5,000	1974	1979	Western
Port Sudan Spinning	14,000	1972	not yet	Eastern
Sennar Sugar Factory	28,000	1972	1976	Central
Shendi Weaving Shed	5,000	1972	1978	Northern
Sudan-Ren Fertilizer	187,000	1975	not yet	Khartoum
Tonj Kenaf Factory	17,000	1974	not yet	Southern
White Nile Tannery	1,300	1972	1975	Khartoum
White Nile Brewery	,900	1973	not yet	Southern
Mellut Sugar Factory	49,000	1976	not yet	Southern
	£S 462,828			
	$847,118[a]			

(a) based on the exchange rate of £S = $2.87 for all projects, except Sudan-Ren Fertilizer where an exchange rate of £S = $0.4 was used (see below).
Source: **op. cit.**

Moreover, in a bid to regain the private sector confidence, the Government issued "The Development and Encouragement of the Industrial Investment Act,1972", which provided a package of incentives and assurances against confiscation. However, by then, the harm had already been done, and despite continuous and persistent efforts by the "President" himself to convince private investors, the annual growth of factories decreased from 13.3 percent in 1969 to 9 percent in 1972 (**Abu Affan, 1986**).

During the 1980s, no major investments were made to create new PEs. In fact, the poor performance of PEs was causing deep concerns to the Sudanese authorities and the international creditors and aid donors, notably the World Bank and the IMF, on the grounds that this is a main cause of the economic and financial crisis experienced by the country. Therefore, vertical investment (i.e investment in existing PEs) through various reform and rehabilitation measures was deemed necessary to improve the productivity and financial performance of PEs. Among these reform processes were legal transformation of all industrial PEs from the public corporation form to "private" limited companies under the 1925 companies Act (the latest in the country), massive rehabilitation projects for various sectors of the economy, changes of the production relations in the irrigated schemes from "the Joint Account System" to the "Individual Account System"[1] commercialisation of operations, and more recently by a wave of privatising a wide range of PEs. These various reform efforts are the main concern of this research, and will therefore be discussed in greater detail in subsequent chapters.

8.2 Rationale for PEs

To start with, it must be stressed that the Sudanese authorities have never spelt out

[1]Under the Joint Account System, the total production costs were deducted from the gross proceeds and the remainder distributed among the partners (tenants, management, and the state) in a certain ratio. Under the new system, each tenant is held responsible for his costs and receives his net proceeds in full (see chapter 10)

a clear policy specifying areas that are restricted to public ownership and those open for private investors. Nor had the authorities clearly defined the economic and social objectives of PEs, or how would accountability be maintained. Indeed, as noted above, the development of PEs has followed a process of contraction-expansion, nationalisation-renationalisation, creating thereby an uncertain business climate. Thus, these changing views on the role of public and private enterprises resulted not only in a lack of a clear policy towards PEs, but more importantly had prevented the development of a vigorous private sector, which is critical for the success of privatisation.

Nevertheless, after careful scrutiny of different sources, such as "the Ten Year Plan, 1960/61-1970/71", "The Organisation and Promotion of Industrial Investment Act, 1967", "the Six Year Plan 1970/71-1976/77", and "the Development and Encouragement of Industrial Investment Act, 1972", we identified the following main reasons for the state participation in the economy. First, to invest in areas that do not attract private investors, due to the low returns, high risks or the capital outlay required. Second, to invest in areas that are deemed necessary for the public interest, due to their strategic importance. However, it should be noted that, at present almost all industrial PEs are operating in economic activities, where the private sector has a tangible presence, including the sugar industry which is considered a strategic industry. Therefore, the output of almost all PEs has either been solely produced by the private sector in the past, or is currently competing with identical goods produced by private firms. Indeed, there are industries, such as textile, soap, sweet, oil and shoe making in which the private sector has long established itself, long before the state, and has achieved a reasonable degree of success over the years. Therefore, the original rationale to invest in projects that do not attract private investors is highly questionable.

Indeed, even the strategic criteria argument has recently been questioned by the privatisation of public utilities, such as Gas in the UK, the Nippon Telegraph and Telephone in Japan, and the Telecommunications in Malaysia. Moreover, the public interest argument could be protected by the "golden share", as applied in the UK, France, and Senegal (**Vuylsteke, 1988**). However, it must be stressed that the privatisation of these industries is likely to be complex, time-consuming, and would require the creation of a regulatory system, with all the problems of regulation.

Other economic objectives cited in the above documents included: to achieve a policy of import substitutes, to promote exports, and to generate investible surplus. Nevertheless, as elsewhere, PEs in the Sudan have never lived up to these expectations. Indeed, as the cases showed, they failed to satisfy local demand, let alone export, and their persistence losses became a burden on the budget, rather than supporting it as planned. On the other hand, the social objectives behind public ownership were incorporated in the statute of the "Industrial Development Corporation (IDC)", which was organised in 1965 to oversee the public factories (see chapter 9). These were: (1) to distribute PEs throughout the country so as to stop rural-urban migration, (2) to train people in rural areas, and (3) to provide basic consumer goods at reasonable prices.

Indeed, as tables (8.1) and (8.2) reveal, most PEs were established in rural areas, basically to create jobs and promote regional development. For example, 8 out of the 9 PEs established in the 1960s, were located in rural areas, while only 5 of the 23 PEs established in the 1970s were located in Khartoum, the capital. The price stabilisation objective, on the other hand, was supposed to be maintained through rigid price controls on all the goods produced in the country or imported.

These social objectives, however, have never been accomplished, and more importantly have had disastrous effects on these industries. First, in a bid to promote rural development, the industries were located in remote rural areas that lack the necessary raw materials supply and adequate infrastructure, such as power, roads or communication services. Second, in order to curb inflation and provide basic consumer goods at reasonable prices, their product prices were set at levels well below the production costs, which created severe liquidity problems for PEs. Consequently, PEs failed to create employment opportunities, and the exodus from rural to urban areas, particularly Khartoum, continued at an increasing rate. Similarly, price controls have also failed to achieve their objectives, because as scarcities developed, due to the deteriorating productivity, goods were removed to the illegal black market where they were sold at a price well above the official price.

8.3 Size and Productivity of PEs

8.3.1 Size

As in other DCs, there is no clear, precise definition of PEs in the Sudan. Therefore, the PE sector tends to include government departments, such as "The Commission for Relief", the "Sudan News Agency", and "The National Council for Research". Indeed, the lack of a precise definition for PEs has resulted in a large number of government departments being converted into public corporations, simply to enjoy the higher salaries and other benefits of a public corporation, without due considerations of whether they could be operated on commercial lines, such as the above examples. In effect, the actual number of PEs is not known with any degree of accuracy. Indeed, different sources give different number of PEs. For example, according to the Auditor General Chamber, the total number of PEs is 230, for the World Bank the total number is 264, and for the Ministry of Finance and Economic Planning, the total number is only 141 PEs. Table (8.3) below outlines these different views about the total number of the Sudanese PEs and their sectoral classifications.

However, we believe, these figures are inaccurate and misleading, in particular those of the MFEP. First, the MFEP list includes only PEs that are financed by the Public Corporation Department of the MFEP, and in particular PEs that bring their annual budgets for approval by the MFEP. Thus, PEs that are financed from the central budget are excluded, such as the Arts and Letters Publishing Company; the Government Printing Press; the Agricultural Research Corporation and the Irrigation Works Corporation. More important, all PEs organised as companies under the Companies Act, 1925, are not legally obliged to bring their budgets for approval by the MFEP, and hence are not included in the MFEP. Examples include all industrial PEs; the Sudan Airways; the Sudan Shipping Lines and the Sea Ports Company. Second, the MFEP list excludes all non-operating PEs, i.e PEs which were never made operational or were operating and then stopped for one reason or the other (see table 8.6 for a summary of this category). Third, the MFEP list excludes PEs that are still under construction, and hence financed from the Development Budget of the Planning Wing of MFEP. Examples include, Atbara Cement Expansion, Western Savanna Corporation, Livestock Roads Corporation and the Development of Amatong Mountains Forest Company.

Table 8.3
Number and sectoral distribution of PEs

Sector	MFEP	Auditor General	World Bank
Industry	39	63	66
Agriculture	15	31	54
Commerce		92	54
Tourism		22	19
Finance	6	18	29
Transport	8		19
Energy	17		11
Joint Ventures	56		
Others		4	14
Total	141	230	264

Source: - MFEP, Public Corporation Administration.
- Auditor General Chamber, Khartoum.
- World Bank Resident Representative, Khartoum.

On the other hand, both the Auditor General Chamber and the World Bank lists classify the subsidiaries of a PE as separate, legal entities, though they are centrally managed by the parent company, such as the Mechanised Farming Corporation and the Hotels and Tourism Corporation. In addition, the World Bank's list includes PEs which were liquidated in 1983, following the introduction of Islamic Laws, such as Aybe National Corporation; Blue Nile and White Nile Breweries, Watania Distillery Corporation, etc. Indeed, as table (8.3) reveals, these sources not only differ on the number of PEs, but also their sectoral distribution. Finally there are a large number of PEs, mainly in the commerce sector, under the "Military Economic Board", on which no information is available regarding their size or operating results.

Nonetheless, the PE sector, which is dominated by the agricultural sector, plays a significant role in the Sudanese economy. They are responsible for an estimated 45 percent of GDP and 75 percent of e0xports[2]. The following table shows the contribution of the different sectors to GDP, between 1976 and 1986.

Table 8.4
Sectoral Contribution to GDP
(1975/76 - 1985/86)

Sector	1975/76	1981/82	1983/84	1985/86
Agriculture	38	34	30	31
Industry	7	8	9	9
Construction	5	5	6	5
Energy	2	2	2	3
Services	47	52	54	52
Total	100	100	100	100

Source: Bank of Sudan Report, 1987.

[2]this figure does not include the contribution of enterprises under the Military Economic Board

8.3.2 Government Equity

As with the number of PEs, information on the government equity in PEs is sketchy, unreliable and misleading. According to the Public Corporations Administration of the MFEP, the cumulative government equity in the PE sector is £s 1,123 million as of March, 1988[3]. However, for a variety of reasons, this figure appears to be far from accurate. First, it reflects the historical cost of the investments made over the years, hence does not reflect in any way the current market value of these investments, or their replacement costs. That is because no revaluation of investment was ever made in the Sudan, though the country has experienced very high rates of inflation during the last decade, and the local currency was devalued many times. Second, the government investment administration was established only in 1981. Before this date, government investment was usually accounted for in the recurrent budget, and treated as expenses at the end of the fiscal year. For example, the Auditor General managed to calculate the sum of £s 12 million that were charged to the expense account between 1978 and 1980 **(The Auditor General Report, 1983/84).**

Third, according to the Auditor General Report, 1983/84, there were substantial payments made as contribution to the capital of some PEs, but has not been recorded as investment in the books of the MFEP. The following examples might illustrate this point: (A) Payment of £s 3 million to the Islamic Cooperative Development Bank, and £s 5 million to the National Bank for Exports and Imports as the contribution to the capital, but do not appear in the investment account of the MFEP. (B) Payment of £s 157 million as the government contribution to the capital of Kenana Sugar Company (joint venture), which was not included in the investment account of the MFEP, though reflected in the company's records. (C) Included in the investment account of the MFEP were amounts belonging to confiscated firms, which were subsequently returned to their original owners, hence should have been written-off, in an amount of £s 5.9 million. (D) The investment account of the

[3]It is difficult to convert this figure into hard currency, because it was incurred over a long period of time, under various exchange rates.

MFEP showed the amount invested in the textile sheds completed during 1978/79 as only £s 2 million, whereas the actual amount invested was £s 25 million.

Fourth, the government units that negotiate, monitor and distribute foreign loans are numerous and dispersed, without any coordination to facilitate the flow of information regarding loan principal; purpose; and how it was disbursed. These include: the MFEP with its two wings, Planning and Finance, which were merged in 1983 but continued to act as autonomous units with separate budgets; the Bank of Sudan; the Ministry of Commerce; and the Sectoral ministries. In fact, the necessary linkages between these units were not adequately specified and what coordination that occurs often depends on a network of personal contacts. Probably this is why the Sudanese authorities are unable to determine with any degree of accuracy, the exact amount of the country's foreign debt, nor how it was spent. Nevertheless, assuming that part of these external loans were used to establish new PEs in the 1970s, would undoubtedly render the MFEP investment figure of £s 1,123 million highly contestable. As the case of the Sudan Telecom showed, the corporation's records show only loans contracted after 1983. Prior to this date, no records are available, even though the period between 1978 and 1982, correspond to the period in which the corporation carried out some 80 percent of its infrastructural projects, which were wholly financed through foreign loans. However, we believe, the Sudan Telecom is by no means unique in this respect. This is a common phenomenon permeating throughout the entire PE sector due to the rudimentary and unreliable nature of the accounting systems and the lack of a central overseeing agency to monitor and evaluate PEs (see chapter 9).

In summary, there is no accurate and reliable data on vital issues, such as the number of PEs, the size of staff, government equity, or even sectoral classification. The implication of this situation on privatisation is that, it leaves a great deal of preparatory work to be carried out before embarking upon any privatisation process. The point is that, such basic data would require a considerable time to assemble and cost a lot of money, which contradict the government intentions of doing it "further and faster" (see chapter 6).

8.3.3 Productivity

In the Sudan, PEs are the major suppliers of most consumer goods, and responsible for about 75 percent of exports. Therefore, their performance has a major influence on the Treasury, as well as the public at large. However, the productivity of almost all PEs has been disappointing. As the cases showed, many factors have contributed to this state of affairs including lack of a clear government policy towards PEs, massive brain-drain, obsolete plants, severe shortages of foreign exchange to acquire necessary inputs and spare parts, inept management, poor financial management systems, and inadequate infrastructure. As a result, capacity utilisation is unduly low, creating severe shortages of basic consumer goods. The following examples from the industrial sector may clarify this assertion.

Table 8.5
Capacity Utilisation of the Sugar Industry[a]
(1984/85 and 1989/90)

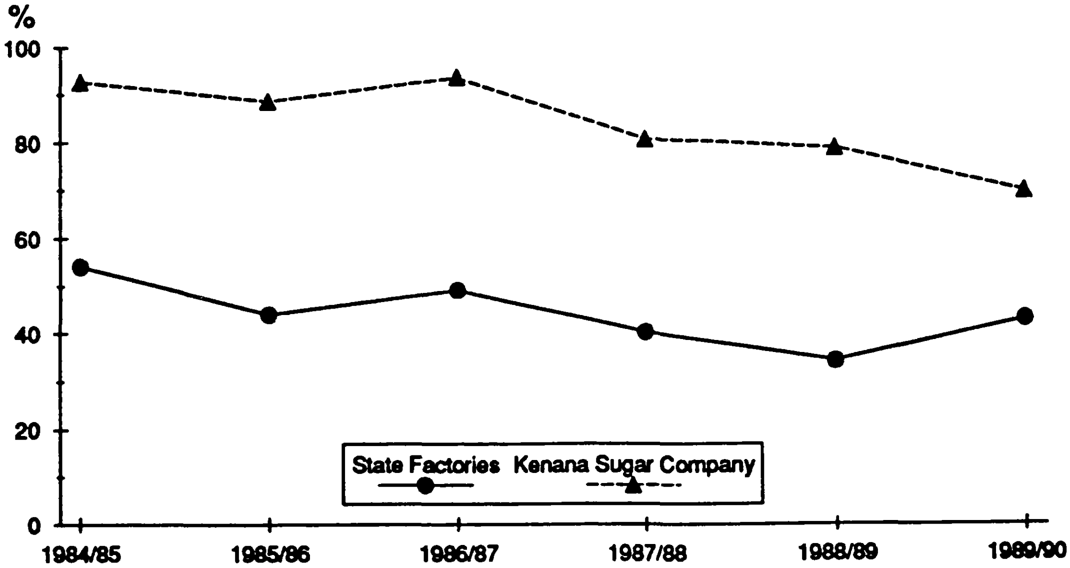
YEAR	Actual Production (Tons)		Ratio of actual capacity[b]	
	PEs	Kenana	PEs	Kenana
1984/85	192,939	306,000	54.1	92.7
1985/86	158,679	292,838	44.1	88.7
1986/87	174,102	309,621	49.0	93.6
1987/88	143,291	266,245	40.3	80.7
1988/89	121,543	260,103	34.2	78.8
1989/90	152,000	229,000	43.0	69.8

[a] The sector is composed of 4 state factories and one joint venture (Kenana).

[b] The designed capacity of the state factories combined is 355,000 tons, and Kenana 330,000 tons of sugar per year.

Source: Public Corporation For Sugar Trading, Khartoum.

Figure 8.1
Ratio of Capacity Utilisation
in the state sugar factories
and Kenana Sugar Company.



It is evident from table (8.5) and Figure (8.1) that the productivity of the state factories has been on a declining trend. As the Guneid Sugar Company showed, the reasons for this decline were numerous. First, a growing scarcity of foreign exchange to acquire imported inputs (i.e agricultural inputs and factory spare parts). Second, irrigation problems caused by power shortages, poor canal maintenance and the lack of coordination between the various government units involved in the sugar production. For example, irrigation is under the responsibility of the Ministry of Irrigation, and the sugar research unit is affiliated to the Agricultural Research Corporation under the Ministry of Agriculture, without either specific regulations or legislation to that effect. Third, very high turnover rates among management and technicians, and a demoralised work force due to poor pay; poor working conditions and continuous changes in management (see chapter 11).

The Kenana Sugar Company is a joint venture with majority private investment, mainly Arabs, and a private management, which has produced about 65 percent of total production during this period (1984/85-1989/90). However, as table (8.5) reveals, its productivity, although much higher than that of the state factories, has also been on a declining trend over the years. This is largely attributed to foreign exchange shortages required to acquire inputs and to pay its expatriate staff. According to the initial agreement between the Government of Sudan and the private partners signed in 1976, the Government of Sudan is entitled to acquire the first 150,000 tons in local currency at a price negotiated with its board of directors. Any production in excess of 150,000 tons, could either be exported or sold to the Government of Sudan in hard currency, according to the international sugar prices. In reality, however, the Government had acquired all production to satisfy local demand, but failed to pay in hard currency, which created the situation noted above.

Nevertheless, it must be stressed that, the example of Kenana Sugar Company was not meant to compare the two sets of enterprises (public and private), simply because they are not alike. For example, while the Kenana Sugar Company is only ten years old, some state factories (e.g Guneid and Halfa) are almost 30 years old. As we shall see in chapter 11, the transfer price of sugar from Kenana to the Sugar Trading Corporation is much higher than those offered for PEs. The designed capacity of Kenana (330,000 tons) and the size of its farm (95,000 feddans), is almost equal to those of the four PEs (355,000 tons, and 120,000 feddans), thus enabling Kenana to gain advantages of scale. Finally, the institutional framework within which both sets operate is entirely different, being bureaucratic in the case of PEs, and flexible in the case of Kenana. For example, the personnel policies for PEs are determined by the civil service chamber, purchases subject to the approval of the central purchasing committee and availability of funds, and finance is obtained from the MFEP after lengthy, painstaking negotiations. In Kenana, however, all these operating decisions are made by its board of directors and the chief executive.

The Kenana case was cited simply to point out that both public and private enterprises are constrained by factors in the broader environment, such as lack of foreign exchange. In effect, we shall increasingly argue that, given this distorted macroeconomic environment, denationalisation is unlikely to generate significant economic benefits (see chapter 13).

The textile industry is operating at even lower levels of capacity. Indeed, as the Friendship Textile company showed, the industry is operating at less than 20 percent of its capacity, due to lack of inputs, spare parts and power. However, it must be stressed that,the Friendship company is the only one that has been consistently in operation, albeit at low levels of capacity. The other textile sheds rely entirely on "Haj Abdalla Spinning Factory (PE) for their raw material supply, but the supplier is operating at less than 15 percent of its capacity, due to air conditioning problems, soil movement that inhibits the plant being operated at full speed, and lack of dust evacuation systems. These are inherited problems that combine to halt production for five months a year, and hence the textile sheds have to stay idle in the interim.

It is thus evident that the history of government involvement in the textile industry has been disappointing. Indeed, despite the huge public investment made in the sector, the private sector is still predominant in terms of actual production, with some 60 percent of total production (**Abbas, 1986**). More important, its an area in which the private sector has long established itself, well before the state, and has achieved a reasonable degree of success.

The food and leather industries are another bitter story of the government industrialisation policy. There are seven food plants and four tanneries, most of which are located in remote rural areas, basically to promote rural development. However, they are hampered by lack of inputs, inadequate power supply, and highly centralised powers at the Headquarters in Khartoum. For these reasons, therefore, capacity utilisation is very low. Indeed, due to the poor performance of the food plants, four of them were closed down in the mid 1980s. However, all the food plants and the tanneries are currently selected for sale under the recent master privatisation plan (see chapter 6).

In short, the whole industrial sector is operating at low levels of capacity, causing a burden on the Treasury and severe shortages of consumer goods. More important, since prices are based on the "cost-plus" formula, the idle capacity would raise unit costs, implying that prices could be set at higher levels, possibly above international prices, to the detriment of consumers. As the cases showed, the major factors inhibiting greater capacity utilisation include frequent power failures, breakdown of repair and maintenance, lack of imported inputs and spare parts due to lack of foreign exchange, and excessive price controls creating severe liquidity problems.

8.3.4 Non-operating PEs

Apart from the idle capacity phenomenon, there are a number of non-operating PEs in the Sudan. Some of these PEs were operating and were subsequently closed down either due to low productivity or the out-break of a civil war in the Southern part of the country. Yet, others have never been made operational for one reason or the other. The following table summarises this state of affairs for the industrial sector.

Table 8.6
Industrial PEs: State of Operation

Subsector	Operating PEs	Non-operating	Total
Cement	2	0	2
Fertiliser	0	1	1
Food	3	4	7
Sugar	4	2	6
Tannery	3	1	4
Textile	8	6	14
Miscellaneous	2	5	7
Total	22	19	41

Source: Ministry of Industry, Khartoum.

Of the 19 non-operating industrial PEs, 10 are located in the South, and were made non-operational, due to the out-break of the war. The rest were either closed down due to poor performance, such as the food plants, or were never operated, such as the fertiliser factory. In all cases, however, the state is still paying vast sums of money, in terms of staff salaries, because no decision regarding staff was taken, though the factories were closed.

Indeed, for a variety of factors, the authorities have done virtually nothing to utilise these wasted resources. These include the political and legal instability, the civil war, the effects of the three years drought (1982 - 1985), and the pervasive chaos in the civil service caused by the sharp deterioration in their real income. All these macro issues, in turn, engaged much of the government attention and time, at the expense of economic issues. In effect, PE issues were neglected, though the country is facing acute shortages of consumer goods. Needless to say, these goods could have been produced by these PEs, and hence saved the meagre foreign exchange used to import these goods.

8.4 Financial Performance

As we pointed out in chapter one, measurement of PE's financial performance is by no means an easy task, due to the duality of objectives assigned to them (i.e economic and social objectives). In the Sudan, as it is in many other DCs, the problem of performance evaluation is further complicated by the lack of accurate and reliable information to enable a researcher to make an objective judgement. This is mainly due to the fact that PE's accounts are not prepared according to the "Generally Accepted Accounting Principles" to permit comparability and that inflation accounting is unknown. Indeed, in the Sudan, even those rudimentary sets of accounts available, lag years behind, and hence are irrelevant for performance evaluation or decision making purposes.

The following table, taken from the most recent Auditor General Report, shows the number of PEs audited vis-a-vis those not audited, over a three-year period. It is evident that the number of PEs that failed to present their accounts for auditing were increasing during the three-year period. For example, the number of PEs not audited increased from 133 PEs (58 percent) in 1984/84, to 202 PEs (88 percent) by 1986/87. Indeed, there are some PEs which were not audited for more than 10 years, such as the Blue Nile Agricultural Scheme (1980/81); Nuba Mountains Agricultural Corporation (1976/77), and Elsuki Agricultural Scheme (1978/79).

Table 8.7
Auditing Status of PEs
as at June, 1978

Year	1985/86		1986/87		1987/88	
Status / Sector	PEs audited	not audited	audited	not audited	audited	not audited
Agriculture	8	23	6	25	3	28
Industry	36	27	26	37	4	59
Commerce	32	60	23	69	6	86
Finance	17	5	15	7	13	10
Hotels	4	18	2	20	2	19
Total	97	133	72	158	28	202

Source: Auditor General Report, 1987/88

Apart from the fact that lack of reliable and timely information would render financial performance measurement a difficult process, it has far reaching implications for privatisation. Clearly, a viable privatisation process requires accurate, up-to-date information to be disclosed to the investing public, to enable them to evaluate the technical and financial position of the enterprise upon which to base their bids. Similarly, the state needs basic information about the financial position of the enterprise and the size of staff, to determine the floor price and the amount of the severance payment required. Therefore, the appropriate course of action would be to form task forces or hire expatriate staff to assemble such data before embarking upon any privatisation exercise. However, these preparatory measures are likely to be time-consuming, which contradict the government intentions of privatising a large number of PEs over just a three-year period.

Nevertheless, the available evidence indicates that the financial performance of PEs has been disappointing over the years. Indeed, 7 of the 9 factories established in the 1960s, incurred losses in an amount of £s 7.3 million ($2.68 million), or 30 percent of their original investment up to 1969 **(Auditor General Report, 1970).** These losses were attributed by a committee formed in 1970 to evaluate the state factories to the following factors. First, no scientific criteria for the selection of the factories was followed, feasibility studies were either non-existent or improperly prepared, and no attempt was made to secure the flow of raw material supply. Second, the factories were established without preparing the qualified staff to operate them, in particular management. In fact, in the post-independence period, the "Sudanisation" of posts was a national issue, and hence managerial posts were often filled in haste by non-professional managers. Indeed, the committee concluded that "no scientific principles for the evaluation of jobs, and putting the right person in the right place ever existed". Third, inadequate delegation of authority, leading to massive irregularities, which went undetected and violators unpunished for a long time.

As the cases showed, the recent history (post-1980) does not fare better than the earlier history. Indeed, performance has even deteriorated further, as plants grew older and the repair and maintenance broke down due to lack of foreign exchange, severe liquidity problems partly due to the stringent price controls, inadequate infrastructure, and massive brain-drain (see chapter 7). Indeed, the persistent losses have wiped out the capital of some PEs (i.e technically bankrupt), others are not in a position to meet their current maturing obligations, while some have even failed to pay the staff salaries. Another noticeable fact in the Sudan is the poor collection of accounts receivables, creating severe working capital problems. In the Gezira scheme, for example, the accounts receivables from tenants and the

Cotton Public Corporation were about 71 percent of current assets. Indeed, this situation of inter-departmental accounts is so pervasive across all PEs, and surprisingly there is no any central government agency with a comprehensive knowledge of the magnitude of these transactions. Clearly, this would require a considerable amount of work to be done, which contradicts the government intentions of privatising as urgently as possible.

In summary, the poor performance of PEs is attributed, in the main, to the highly distorted macroeconomic environment in which they operate. That is the severe shortages of foreign exchange, the rigid pricing systems and inadequate infrastructure. There is no any central government unit with accurate data about the number of PEs, the size of the work force, the government equity or the financial position of PEs. For these reasons, therefore, the privatisation process is likely to be difficult, and its potential benefits are unlikely to be realised. We shall pick up these points in more detail in chapters 12 and 13. In the following chapter, we shall investigate the internal issues relating to the organisation and management of the Sudanese PEs.

Chapter Nine

Organisation and Management of PEs in the Sudan

The purpose of this chapter will be to investigate the organisation and management of PEs. It will be composed of three main sections. The first section will be devoted to the macro organisational set up and the emerging organisational issues. The second section deals with the managerial functions of planning, organising, staffing and controlling. The final section will critically examine the subject of managerial autonomy in theory and practice.

9.1 Macro Organisation

The macro organisational set up of PEs in the Sudan has experienced numerous changes since their creation in the early 1960s. Nevertheless, the basic model of control over PEs has been a sectoral ministry model, where PEs were attached to a particular ministry to provide sectoral policy, monitor and evaluate PEs attached to it. This sectoral ministry control model, however, appears to be not unusual and found in many countries, such as Brazil (**Trebat, 1983**). Indeed, **Hanson (1965)** asserts that it is only through ministerial control that PEs can achieve the overall socio-economic policy of the country. The author argues that "The alternatives are either no control at all or control by bodies with no political responsibility, both of which may be ruled out as harmful and/or impractical".

As elsewhere, however, we found that the ministerial control model proved to be ineffective, partly due to lack of a clear, transparent public policy towards PEs, and partly due to lack of information flows between PEs and the central government. Moreover, there are so many government units that are able to influence, directly or indirectly, the operations of PEs, creating great confusion as to who has the authority to act on behalf of the state. This is largely because the various laws establishing PEs have proposed central overseeing agencies to be created to supervise PEs, but they never came into existence. Indeed, we found that there is no single central overseeing agency with accurate and reliable data on the number of PEs, government equity, financial position of each PE, or the inter-departmental accounts between PEs (see below).

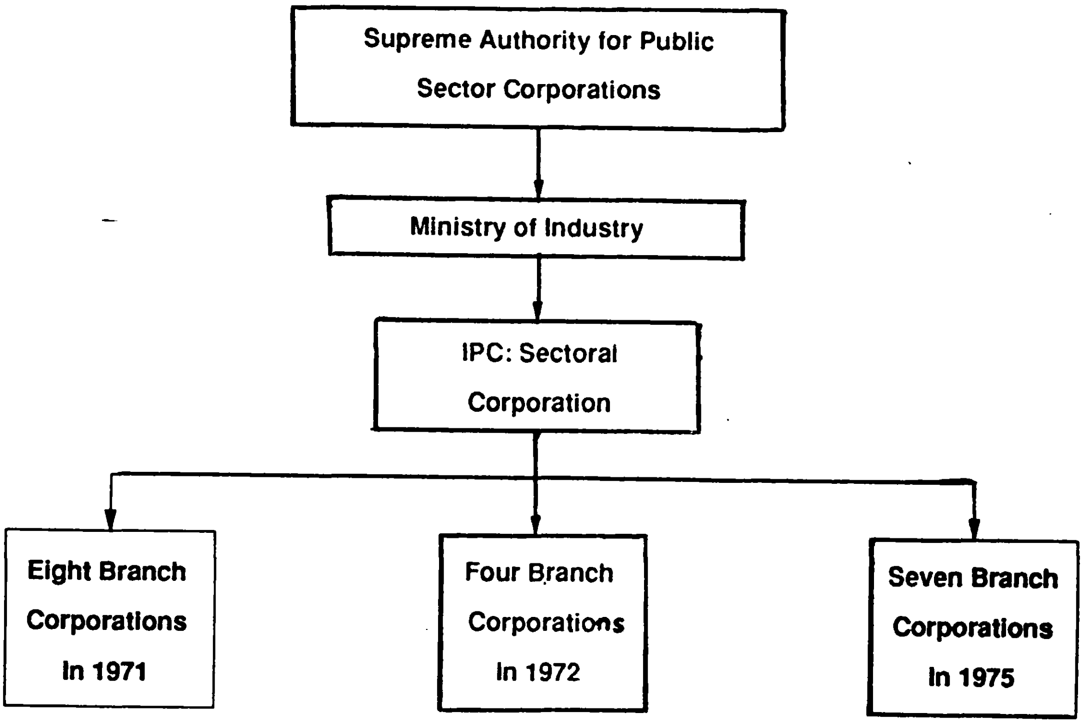
In what follows, we will outline the macro organisational structure of the industrial PEs as a case study, to show how the government control over PEs has evolved, the current state of the art, and then comment on the emerging organisational issues.

9.1.1 Organisation of Industrial PEs

Initially, the supervision of the nine factories established in the early 1960s was assigned to "the Government Factories Authority", which was converted in 1965 into "The Industrial Development Corporation" (IDC). The IDC was mandated to complete the construction of unfinished factories, recommend new projects, and manage the factories. To perform these tasks, the IDC was granted a considerable degree of autonomy (see 9.3). However, the nationalisation and confiscation measures of the 1970 substantially increased the number of PEs, which necessitated the reorganisation of the sector to accommodate the new comers. In effect, "the Public Corporations Act, 1971" was issued, which established a "Supreme Authority for the Public Sector Corporations" to monitor the operations of all PEs. The Act also established a two-tier system : sectoral and branch corporations. As a result, "The Industrial Production Corporation" (IPC) was created as a sectoral corporation to operate all industrial PEs. It was charged with the responsibility of "general supervision, control, coordination, and performance evaluation of branch corporations, without interfering in the internal affairs of such branch corporations" (**1971 Act, Section 3.1**). The main governing body of the IPC was its board of directors responsible for "drawing up the general policy of the IPC in accordance with policies laid down by the Supreme Authority". The main tasks of the IPC included the execution of projects in accordance with the development plan, supervising the activities of the production units, evaluating possibilities for establishing new projects and/or developing existing projects. Initially, the 1971 Act provided for the creation of eight branch corporations under IPC. These were branch corporations for food, sugar, oil, mining, tobacco, building materials, electrical, and leather.

However, due to the hasty denationalisation measures that took place in 1972, the number of industrial PEs dropped from 47 to 32. As a result, the industrial sector was rearranged into four branch corporations instead of eight. These were branch corporations for food, sugar, leather, and mining. In 1975, and due to the establishment of a substantial number of new factories, the industrial sector was reorganised into seven branch corporations for food, sugar, oil, leather, mining, building materials, spinning and weaving industries. The following chart summarises these organisational developments between 1971-1975.

Organisation Structure of Industrial PEs (1971-1975)



Although, this organisation appeared to be sound and logical, it was claimed that the buffer corporation has lengthened the chain of command and deprived the production units of the autonomy provided for in the law. Accordingly, a new legislation "The Public Corporation Act, 1976" was passed, which resulted in the liquidation of the IPC. Under the new Act, only one type of a corporation was to be established by a "Warrant of Establishment", vaguely defined as a "corporation established in accordance with the provisions of this Act, for the purpose of achieving the objectives for which it was created". The corporation was to be supervised by a Minister named in its "Warrant of Establishment", to give "general and specific direction to the board of directors in any matter relating to the corporation as he may think to involve public interest, and the board shall act according to such directions" (**section, 7.1**). The governing body of the corporation was its board, "responsible for the management of its affairs". In particular, it was to lay down the general policy, to conclude contracts and agreements, to approve annual budgets, to appoint staff and to submit periodical reports to the Minister concerned (**section 7.4**).

In practice, however, this framework of ministerial control never functioned as it was originally intended. As elsewhere, while the original intention was that ministers should provide strategic guidance, and refrain from detailed interference in day-to-day operating decisions, in reality the opposite occurred; strategic guidance was never provided and intervention in operating decisions mounted. The Sudanese authorities failed to establish incentives for managers and ministers to act in the "public interest", which was, in turn, politically defined, according to the political party in power.

The 1976 Act also replaced the "Supreme Authority for Public Sector Corporations" with a "Supreme Council for Public Corporations", chaired by the Minister of Finance, and empowered to: (1) recommend to the "President of the Republic" the establishment of new projects, and winding up or amalgamation of any corporation that fails to achieve its objects or if the public interest so requires, (2) coordinate among corporations and settle disputes,

(3) set limits to borrowing, and (4) determine the percentage of revenues to be remitted to the Treasury (**section 6.1**).

In relation to the personnel issues, the Act established a separate organ, "The General Administrative Organ for Corporations", under the Minister of Public Service and Administrative Reform. The organ was entrusted with the following tasks: (1) evaluation and classifications of posts for corporations; (2) recommend to the Minister the service regulations for corporations; (3) supervise and control annual budgets for posts, and (4) assist the corporations in reconsidering their organisational structures (**section 8**).

Nevertheless, as with the "Supreme Authority for Public Sector Corporations" under the repealed 1971 Act, neither the Supreme Council for Public Corporations, nor the "Administrative Organ for Corporations" has ever come into existence. As a result, an organisational vacuum was created in the entire system concerning the location of specific responsibilities and authorities. Moreover, the Ministry of Public Service and Administrative Reform was later liquidated, with its functions scattered across different government units, which had had disastrous effects on the personnel issues, as we shall see later.

In addition to these pieces of legislation, the government also issued "The Financial and Accounting Regulations Act, 1977". This Act considerably diluted the role assigned to the sectoral ministries, and centralised in the MFEP the powers to approve budgets; to make regulations regarding financial management and accounting systems; to control purchases and contracts; stores; foreign loans and subsidies. PEs were required to strictly adher to the provisions of the Act, according to section(2.B), viz: "The heads of corporations must commit themselves to the execution of this statute and any procedures obtained from it". Nevertheless, we shall increasingly argue that this piece of legislation was in conflict with the provisions and the spirit of the 1976 Act, particularly regarding the autonomy of PEs (see 9.3).

Finally, in 1981, a Presidential decree was issued to convert all industrial public corporations into "private limited companies" under the Companies Law, 1925 (the latest in the country). This is a form of organisation under the 1925 Act, which restricts its membership; prohibits inviting the public to subscribe to its shares and debentures, and expects the enterprise to adopt a private sector behaviour in its operations[1]. The objective was to grant industrial PEs more flexibility and autonomy in their operating criteria. We shall discuss these legal restructuring measures in more detail in chapter (10), registering for the moment the fact that, however sound and desirable these objectives were, the implementation was flawed in many respects. At present, the PEs converted into companies continued to operate under the same laws and regulations; under the same management and work force, and hence no significant improvement in productivity or financial performance materialised.

9.1.2 Emerging Organisational Issues.

The government control systems were based, in the main, on the law (i.e the Acts of 1965, 1971, 1976, 1977 and the 1925 Company Law). This is largely due to the seeming success and the attractiveness of the British public corporation model (**Ghai, 1985**). The Sudan, a former British colony, adopted the British legal system, and has only recently been changed to the Islamic Laws (the company law, however, remained unchanged since 1925). As in the UK, the law clearly defined the interface relationship between the government and the corporations. For example, the 1976 Public Corporations Act stressed that, the corporations should be accountable for the performance of their functions by requiring the Boards of Directors to submit to the sectoral ministry half yearly reports on the progress of the business of the corporation, the final accounts and the audit reports (**section 17**).

[1] The companies Law, 1925, provides for two types of companies; public and private. The primary differences between them are that: (1) the number of share holders, (private; no less than two and no more than fifty; public; no less than seven but no maximum limit); and (2) ability to trade shares: private, only among partners; and public to any investors in the open market. Thus, in the context of the current Sudanese Law, the state can own all the shares in a private company. Therefore, the term "private" should not be construed as the opposite of government (see chapter 10).

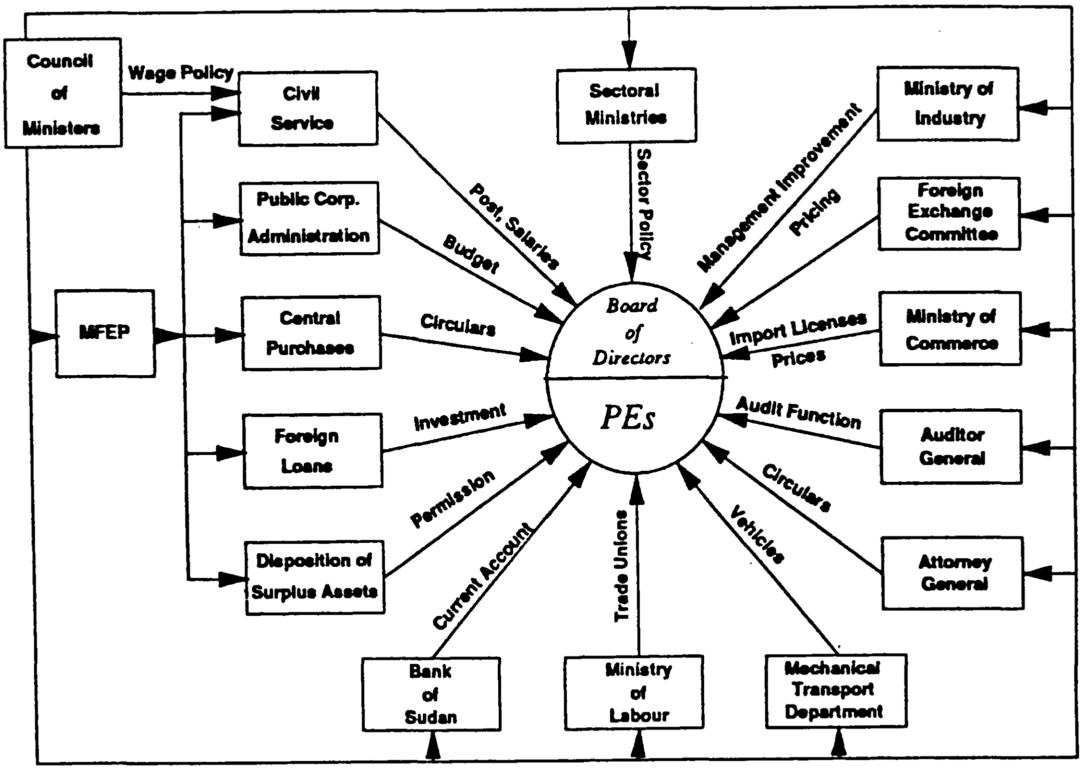
However, the law maintained that such accountability "should not impinge unduly upon the management of the corporation". This was to be achieved by the establishment of the corporation's "legal entity, having a perpetual succession, a common seal, and may sue and be sued in its own name".

The enactment of the law, however, was very weak, and so was the commitment of the state not to intefer in the management of the corporation. As elsewhere, the distinction between the corporation and the central government, which was emphasised by Morrison, the founder of the public corporation model, was never adhered to. As the cases showed, the boards were composed, in the main, of civil servants representing concerned ministries, which allowed bureaucracy to creep in and influenced managerial behaviour and attitudes. As **Ghai (1985)** argues "An influential minister or civil servant can stifle enterprise initiative at an early stage, or force it into action that is contrary to its own good sense... If the board is an extension of the government, then management is an extension of the bureaucracy". Indeed, in the very rare cases where the chairman of the board was not a representative of the sectoral ministry, as in the case of the Duty Frees Shops Corporation, we found that the board has managed to defend the corporation's autonomy in a number of respects, including the MFEP's prerogative in reviewing the corporation's annual budget.

Second, it appears that there is a positive relationship between the tightness of the government control and macro-economic situation. For example, in the 1970s when inflation rates were under control and there were no major balance of payments and unemployment problems, PEs have enjoyed a higher degree of operational autonomy, than in the 1980s when the country faced serious economic and financial difficulties. Consequently, there were often swings between centralisation and decentralisation, regardless of the provisions of the law, which **Ayub and Hegstad (1986)** referred to as "the vicious circle control".

Third, although both the 1971 and 1976 legislation have provided for the creation of a central overseeing agency, in fact they have never been created. As a result, a state of confusion emerged regarding the location of the authority and responsibility in the whole system. The following simplified chart, theoretically illustrates the current state of the art.

Chart 9.2
The Institutional Environment of PEs in the Sudan.



However, it must be stressed that the above chart is by no means exhaustive of the various government units that are able to influence the operations of the Sudanese PEs. For example, our investigation revealed that there are about 12 departments within MFEP alone that exercise some sort of control over PEs. The most important are: (1) The Public Corporation Administration, which was created only in 1983, presumably to assume the functions and responsibilities of the Supreme Council for Public Corporations. In reality, however, the Administration is only concerned with the approval of the annual budgets, and to see to it that the corporations are operating within the budget limits. Indeed, the Administration is not even able to obtain actual achievements to be compared with the plans; to seek explanations for deviations, and to take corrective measures when necessary. The reason often cited by the officials interviewed is that "we asked for reports on actual performance, but failed to get a response from the corporations". PE managers, on the other hand, referring to the 1976 Act (**section 7.2**), claim that such reports will be submitted only to the sectoral ministry, through the board of directors.

However, our investigation revealed that, even sectoral ministries, notably the Ministry of Industry, were complaining about lack of feedback. An official in the Ministry of Industry attributed this situation to the inadequacy of the communication services in the country. He argued that "you need months to contact Nyala in the West or Karima in the North, and by the time the report arrives, it becomes totally irrelevant for decision making purposes". It is true that the communication systems in the Sudan are totally unreliable and in complete disarray. Indeed, a number of PEs, such as the Gezira and Rahad agricultural scheme, have established their own telecommunication networks, basically due to the extremely poor services provided by the telecommunication corporation, though it has a monopoly position as per its "Warrant of Establishment". But nevertheless, as the cases showed, even PE managers are not receiving regular reports, largely due to the absence of management information systems in all PEs. A second department within the MFEP is the Civil Service Chamber; which determines all personnel issues including wages, posts; promotion and approval of the salaries budget; often referred to as "chapter one". A third is the Planning Wing of the MFEP, empowered to approve the development budget, reffered to as "chapter three", as well as allocation of foreign exchange for PEs. A fourth, is the central purchasing department responsible to approve all foreign purchases and local purchases in excess to £s 500,000 (£12,500). A fifth,is the Financial Accounting Department entrusted to appoint financial managers to PEs, often on secondment basis from its own staff, largely to ensure adherence to the financial regulations contained in the 1977 Financial

Regulations Act by the corporations. Other departments within the MFEP able to influence the operations of PEs include: The custom duties, the money and banking, the government revenues, and the disposition of surplus assets departments.

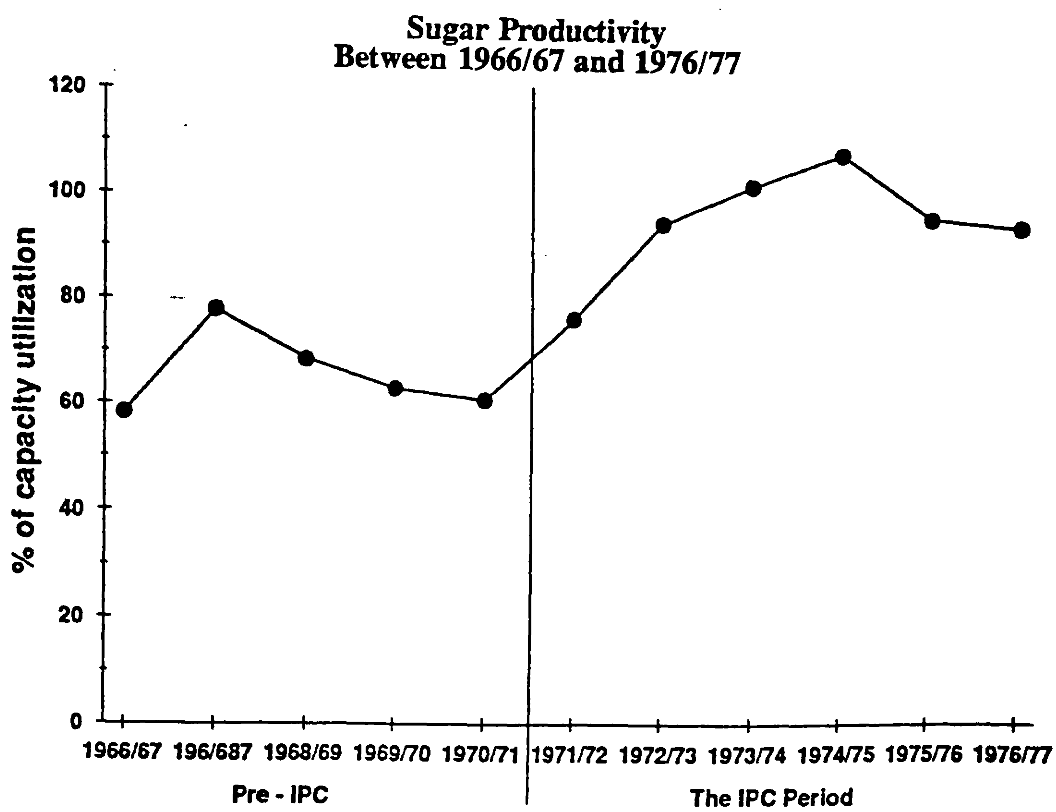
The list also includes: the sectoral ministries in their theoretical role to provide strategic guidance and the sector policy. The Ministry of Industry, for example, is empowered to set ex-factory prices for all manufactured goods; to monitor quality control; to transfer modern technology; and to devise and implement modern management practices (see below). There is also the Bank of Sudan, the main lender to PEs, the Ministry of Commerce to issue import licences and to set wholesale prices; the Attorney General responsible to ensure that PE's transactions are carried out in accordance with the Financial regulations; the Foreign Exchange Allocation Committee; the Mechanical Transport Department; the Ministry of Labour; and the Auditor General Chamber.

The fourth organisational issue is the frequency of changes of the macro organisational set up of PEs. As we saw above, the industrial sector has witnessed some five reorganisations in less than two decades. This phenomenon is largely inconsistent with the experience elsewhere, notably the UK from which the public corporation theory was borrowed. In the UK, for example, organisational changes took place over much longer time periods, and more importantly were based on vigorous studies, which came out in the successive White Papers of 1961; 1967; 1978. In the Sudan, on the other hand, such studies on the deficiencies of existing forms and the need for change were never undertaken before the abolition of one form, and introduction of the other. For instance, **Idris (1986)** alleged that the IPC was a main reason for the poor performance of the industrial sector, as it centralised powers and lengthened the chain of command. The researcher, however, failed to establish a firm evidence to this effect. On the contrary, taking the productivity of the Sugar factories as a case study-due to the strategic importance and the size of investment made in the industry - we found that the productivity of the two sugar factories, established in the 1960s have reached record highs between 1971 and 1977, the IPC era(table 9.1).

Table 9.1
Sugar Productivity
Between 1966/67 and 1976/77

Year	Production(Tons)	Ratio of Designed Capacity (%)[a]
Pre - IPC		
1966/67	70,878	58.3
1967/68	93,284	77.7
1968/69	82,093	68.4
1969/70	75,317	62.8
1970/71	72,583	60.0
The IPC Period		
1971/72	91,219	76.0
1972/73	112,641	94.0
1973/74	120,973	101.0
1974/75	128,651	107.0
1975/76	113,949	95.0
1976/77	112,138	93.4

(a): designed capacity of the two factories is 120,000 ton per annum.



Source: Sugar Trading Corporation, Khartoum.

It is quite evident that, productivity reached its peak between 1971 and 1975 (the IPC era), before declining to its lowest levels ever (30 percent) in later years. However, we are not claiming that the holding corporation was the best organisational form, but simply to point out that, the so-called deficiencies that this organisational form were claimed to have made, were not substantiated by empirical investigation.

Thus, from the above discussion, it could be concluded that, government controls in the Sudan have not been introduced on a systematic basis. As **Ghai (1985)** argues, The inadequacy of one type of control leads to the establishment of another set of control, so that there is cumulative effects". This is largely because the Sudanese authorities have never spelt out precisely what the government wants to control, nor what it wants to achieve. As a result, neither the state knows exactly what it wants to achieve, nor could PEs be held accountable to a predetermined target. The government charges a 5 percent on the capital invested, and takes a percentage of the profits made by PEs. According to the provisions of the 1976 Act, the responsibility to set the percentage of profits to be remitted to the Treasury was assigned to the "Supreme Council for Public Corporations (section 2.2e). In practice, the MFEP used to deduct the 5 interest charge in advance, from the annual budget of each corporation.

The following observations could be made against this practice. First, some profitable PEs do not bring their annual budgets for approval by the MFEP, on the grounds that this is the function of the boards of directors (see case 3 in chapter 7). Thus, loss-making and financially-troubled enterprises, which need the government support bring their budgets for approval, and hence suffer more. Second, from the government point of view, the interest charge is under-estimated because the government equity in PEs is unknown with any degree of accuracy, and that no revaluation of assets has ever been undertaken despite the hyper inflation and the continuous devaluations that took place during the last decade. Equally, the 5 percent interest charge is far below the 30 percent interest rates prevailing in the economy, and hence does not reflect the opportunity cost of this scarce resource.

As regards the profit share to be remitted to the Treasury, there is a great controversy concerning the legitimate body to set the rate. According to the provisions of the 1976 Act, this role was assigned to the Supreme Council for Public Corporations, while the Financial Regulations Act, 1977, assigned this task to the MFEP. Nevertheless, as the Supreme Council never came into existence, the MFEP assumed this role "by elimination", which created a problem of goal congruence. That is, the same ministry setting the rate is the receiving ministry. Therefore, in a bid to maximise the government revenues, the MFEP could set the rate at unrealistic levels, as the DFSC case showed (see chapter 7).

In any case, according to the provisions of the 1976 Act, the rate was supposed to be paid out of the actual profits generated, based on certified accounts. In reality, since the accounts of most PEs are years behind, the MFEP used to deduct its profit share from each corporation's budget, based on budgeted profits. Thus, the annual budget is the only way through which the government exercises control over PEs. However, the budgeting system itself is deficient in a number of scores, and indeed it is no more than allocating the meagre resources among competing users in a subjective manner. As a result, it is irrelevant for planning and controlling purposes (see below).

9.2 Micro_Organisation

In this section, we shall examine issues relating to the managerial functions of planning, organising, staffing and controlling. The analysis will be based on the cases outlined in chapter 7.

9.2.1 Planning

Planning as a management function can be defined as identifying alternative courses of actions, setting realistic and attainable objectives, and specifying the strategies to achieve those objectives. Thus, planning is supposed to bridge the gap between the present and the future, to focus attention on goals, and attempt to offset uncertainty by forecasting events.

However, planning in this sense, simply does not exist in the Sudan. As the cases showed, absence of long and medium term planning is the norm. Indeed, the only form of planning performed is the annual budget, which follows the government budget structure and timing. Therefore, it is of limited operational value to commercial enterprises (see below).

Objectives

Many writers would claim that, the cornerstone of any planning exercise is the formulation of realistic, unambiguous objectives. Indeed, if planning is the most important managerial function, objective setting is the most important step in planning. In the Sudan, however, the objectives behind the creation of PEs has never been clearly defined, let alone enterprise objectives. Indeed, the Public Corporation Act, 1976, did not define in a clear, precise manner the corporation itself. The former 1971 Act, over- emphasised the political motives for the government intervention in the economy, such as "with the aim of liberating the economy from the grip of foreign firms", "the establishment of the basis for a socialist economy", "in order to serve public interest and get rid of the selfishness and greediness of private firms". However, the Act was completely silent on the enterprise objectives. Similarly, the Six-year Plan (1977/78 - 1983/83) over-emphasised the social objectives, such as rural development and job creation, but said nothing on the enterprise objectives. As a result, the absence of realistic, clearly formulated and communicated objectives is the norm throughout the cases investigated. Ideally, such enterprise objectives should be derived from the overall macroeconomic objectives. But, even in the absence of macro objectives, micro objectives developed at the enterprise level could provide a basis for performance evaluation. At present, however, there are no clear, quantified objectives across all the cases, in terms of financial targets or physical production that could provide guidelines for PE managers.

The reasons for the absence of enterprise objectives are numerous. First, is the absence of a clear rationale for the whole sector from which enterprise objectives could be derived. Second, the multiplicity of principals (i.e the numerous government units that are able to influence the operations of PEs) often leads to conflicting messages being transmitted to PEs. Third, the fact that the budgeting system is closely related to the state budget format and timing, discourages long and medium term planning. Fourth, the very high turnover rates among senior management, and more importantly so many operating decisions are beyond the control of management (e.g foreign exchange allocation, pricing and labour policies, financing, purchasing and power supply). All of these, inhibit medium and long term planning.

This state of affairs has created a sense of confusion and frustration among PE managers. Indeed, the objectives often cited by PE managers interviewed were so broad, and in most cases confusing, as the following quotations reveal.

(-) "Achieve self-sufficiency, manufacture our raw materials rather than export them".

(-) "Earn foreign exchange through the export of finished goods".

(-) "Establish factories in rural areas so as to contain rural-urban migration, and raise the standards of living in those areas".

(-) "Satisfy local demand".

(-) "Generate profits for the Treasury".

In no case, however, were these broad, long term plans translated into quantified, monitorable annual targets. As a result, all PEs concentrate on annual budgets as the only form of operational planning. Indeed, all PE managers interviewed indicated that they have no freedom to formulate long term plans for their firms. They are obliged by law to follow the government budget format and timing as specified in the "Budget Manual" issued annually by the MFEP.

In what follows we will outline the budgeting process, and then analyse its main deficiencies[2]. The Public Corporation Act, 1976 (section 15) maintained that "the budget of each corporation should be prepared on sound commercial and accounting basis". In practice, however, the budgeting system practised in the Sudanese PEs is the same as the conventional government budget, which is composed of three chapters: chapter one deals with personnel benefits and approved by the civil service chamber; chapter two deals with operating expenses and approved by the Finance Wing of the MFEP; chapter three is divided into two sections: section one deals with minor capital expenditure and approved by the Finance Wing of the MFEP, while major capital investment are approved by the Planning Wing of the MFEP, under the "development budget".

The procedures run as follows: each year the "Budget Administration Department" of the MFEP sends to all government departments, including PEs, a "Budget Preparation Manual" specifying the objectives of the government budget for the forthcoming financial year and the specific guidelines that govern the estimation of the budget items. In effect, PEs as well as all other public sector units, such as hospitals and educational institutions, must structure their budgets in accordance with the instructions contained in the "Budget Preparation Manual".

For example, the Budget Preparation Manual for 1990/91, outlined the following major objectives of the government budget.

(1) self-reliance, through optimum utilisation of available resources; productivity increase and efficiency enhancement.

(2) increase internal revenues to increase total government revenues in relation to GDP.

---

[2]this budgeting process applies to all government units, including all PEs in the country.

(3) reduce government and PEs borrowing from the central bank, with the aim of reducing total money supply in the economy.

(4) reduce inflation rates in the economy.

(5) reduce public expenditures.

(6) development of exports to generate more foreign resources.

To achieve these broad macro objectives, the Budget Preparation Manual went on to specify a series of measures on how the budgetary items can be made for the 1990/91 budget proposals. For example, it specified that the expenditure for wages and salaries should be the same as those of the previous year, without creating any new jobs. The expenditure for operating expenses were to be reduced by 15 percent from the previous year's level. For chapter three items, the Manual specified that the appropriation should be centralised and disbursed according to "priorities".

Upon the receipt of the Budget Manual, the Financial Manager of each PE forwards these instructions to the functional managers, and inform them about the timing of presenting their departmental budgets. An initial meeting is then held in early March - just 3 months before the end of the fiscal year - between the General Manager and functional managers. Following this introductory meeting, a series of meetings are then arranged between the financial manager and other divisional managers, theoretically to discuss how to comply with the guidelines specified in the Manual. In reality, these meetings are more to do with finding ways and means of evading the guidelines in anticipation of cuts by the MFEP. When all divisional budgets have been prepared, the financial manager constructs a global budget, and presents it to the General Manager, who in turn presents it to the board of directors for approval. However, the board approval is just a formality given the unlimited powers of the MFEP to modify the budget. The financial manager then takes the budget for discussion with the sectoral ministry, and then to the MFEP for approval.

Having broadly outlined the budgeting process, which is the same for all the government departments, including all PEs, we now turn to discuss its value as a planning tool. First, the budget horizon and format is closely linked to the government budget format and timing. As a result, PE's budgets are not related to any long term plans, and must adher to the government budget structure and timing, regardless of the nature of their business or the production cycle. In the agricultural sector, for instance, the period between April and June of each year is the busiest time of the year, because it coincides with the preparation and payment of tenants proceeds. Thus, the budgeting system is not only of limited relevance to these PEs in the agricultural sector, but also severely limits their financial autonomy. Second, on the anticipation that the budgets will be exposed to the subjective cuts at the MFEP, PEs usually over-state their budgets. Consequently, the vicious circle of inflated budgets and cuts by the MFEP reduces the budgeting system to no more than a subjective way of apportioning the meagre resources between the government units. Nevertheless, it must be stressed that, during the budget discussion at the MFEP, PEs are not in a position to defend their budget estimates, not least because the budgets are not based on accurate, reliable data. Moreover, the financial managers in all the cases are on secondment from the MFEP, which creates a sense of divided loyalty between their PEs and their ultimate masters. Third, the approving authority (the MFEP) does not obtain actual results of the previous year budget to compare them with budgeted figures, to analyse variances and to take corrective measures. Apart from the fact that this practice hinders control (see below), it does not encourage PEs to control costs or improve productivity, which is the main function of a sound budgeting system. Indeed, we failed to find actual budget performance information at the government level. The Auditor General Chamber, has the actual results, though years behind. But, in carrying out the audit function, the Auditor General does not obtain the budgets to compare them with the actual results, implying that efficiency auditing is not known in the Sudan (see below). Fourth, there is complete separation between capital budget and the operating budget. For no clear reasons, the former is approved by the Planning Wing of the MFEP,and the latter divided between the finance wing of the MFEP and the Civil

Service Chamber. Although the Planning and Finance Wings were merged in 1983 to form the MFEP, they continued to operate as autonomous entities with virtually independent budgets. The Civil Service Chamber, on the other hand, was part of the Ministry of Public Service and Administrative Reform, which was liquidated in 1981, and the Chamber attached to the MFEP. This situation, in turn, created a number of government departments involved in the budgeting process, which complicated the system. The point is that there is no relationship between the planning of the capital and operating expenditure. Finally, as it is, the budgeting system is further distorted by the excessive bureaucratic controls, where PE managers must operate within the budget limits. Moreover, since managers who exceed the budget ceilings are subject to prosecution, the budgeting process has often meant that, PE managers put more emphasis on observing the ceilings, than the needs of the corporation, or to the changes brought by changes in the environment.

Planning Constraints

The major impediments to effective planning include a highly distorted economic environment, lack of reliable and timely data, and some underlying cultural factors.

The Economic Environment

In a static environment, events are likely to be easier to predict, which has never been the case in the Sudan. The continuous devaluations, the soaring inflation, the lack of foreign exchange, the frequent power failures, and the frequency of organisational changes are facts of life. We shall pick up these macro factors in chapter 12, registering for the moment that these uncontrollable factors have hindered planning and frustrated PE managers. Indeed, all PE managers interviewed claimed that they often spend an inordinate amount of time dealing with these external constraints, rather than performing their normal managerial functions.

Lack of Information

An essential prerequisite for effective planning is the availability of a comprehensive and timely data to assess the available opportunities, to formulate realistic objectives and the means to achieve those objectives. However, the data situation in the Sudan, at both micro and macro levels, is at best sketchy and unreliable. We have already seen that, at the enterprise level, the accounting systems are rudimentary, and the financial statements are not prepared according to sound accounting practices. More important, they lag years behind, and hence irrelevant for planning purposes. In addition, the accounts are usually prepared according to the government accounting systems, which are based on cash accounting (i.e cash received and paid out). As a result, the accrual basis of accounting, where expenses and revenues are recognised when incurred/earned, regardless of being paid/collected, is not used. Thus, the PEs are unable to prepare their financial accounts on sound commercial basis. For example cash movements are recorded under the same headings as those used to present the budget.

The structure is as follows:

	Debit	**Credit**
Chapter one	x	
Chapter two	x	
Chapter three	x	
Revenues		x
Net Surplus	x	—
Sub-total	xx	xx
Accounts Receivables	x	
Accounts Payable		x
Cash	x	
Stores	x	
Budget surplus/deficits	x	—
Total	xx	xx

The reasons for this state of affairs could be attributed to the following factors. First, the Financial Regulations Act, 1977, originally designed to safeguard public money against misappropriation, has over-burdened financial managers with routine, clerical work, such as authorisation of cash payments and receipts, and issuance and receiving of raw materials. In effect, these daily routine tasks seem to occupy most of their time, at the expense of developing sound accounting systems. However, it must be emphasised that the responsibility to design and implement sound accounting systems in the industrial sector lies with the "Industrial Research and Consultancy Centre", under the Ministry of Industry (see below). So, PE managers have neither the authority nor the tools to initiate and implement proper accounting systems that suit their needs. Second, the financial managers in all the cases investigated were on secondment from the MFEP, and are career civil servants. Therefore, it might be difficult for them to depart from that experience. Third, as the cases showed, the accounting staff are predominantly school leavers with no accounting background, which makes it difficult to operate a sophisticated accounting systems. Fourth, the attitudes of PE managers towards the use of accounting data for decision making purposes is very low (**Musa, 1987**). As we shall see later, this is largely because PE managers are often civil servants with no experience in business management.

The situation at the macro level, however, is not much better. As noted earlier, the lack of statistics on vital issues, such as the number of PEs, the size of staff, the government equity and financial position of PEs is the norm. In fact, government departments do not publish regular reports and even those published are not systematcally distributed to the public, so as to inform them about the costs of operating PEs. As we argued earlier, there might have been less political opposition had the public been informed about the persistent losses of PEs. More importantly, the evidence from the literature indicates that publicising the financial performance of PEs greatly improves performance (**Ayub and Hegstad, 1986**). The authors attribute this to "Finsinger Social Comparison Theory" which states that "people most strenuously seek to evaluate their performance by comparing themselves to others, not by using absolute standards".

Cultural Factors

A final major constraint to effective planning relates to the prevailing cultural factors within the Sudanese society. For example, a recent study on the impact of cultural factors on the Sudanese management practices reported that, the prevailing attitudes among the Sudanese in general is "wait and see" (**Hassan, 1982**). The author argues that "The Sudanese do not realise the need for planning, because they strongly believe in fate, and in God not only as a creator but also as a causal factor for everything". Although we do agree with the author, we are not in a position to comment on this highly complicated religious issue.

9.2.2 Organising

The second managerial function is organising, which refers to the grouping of enterprise activities into functional departments, product lines, or geographical locations to facilitate the attainment of objectives. In the Sudan, the colonial civil service provided the PEs with the basic knowledge of organising. However, as the cases showed, the organisation structure across all the cases is the same: usually a managing director supported by divisional managers for finance, personnel, production, sales, etc. Yet, the lack of specific terms of reference for the managing director or the functional managers is the norm. Indeed, it is not unusual to find the managing director and his subordinates placed at the same scale and receive the same salary. This is largely because posts were normally created to accommodate a certain individual without clear definition of the job. Moreover, there are departments that exist in name, but not functioning, such as training, research and development, and cost accounting.

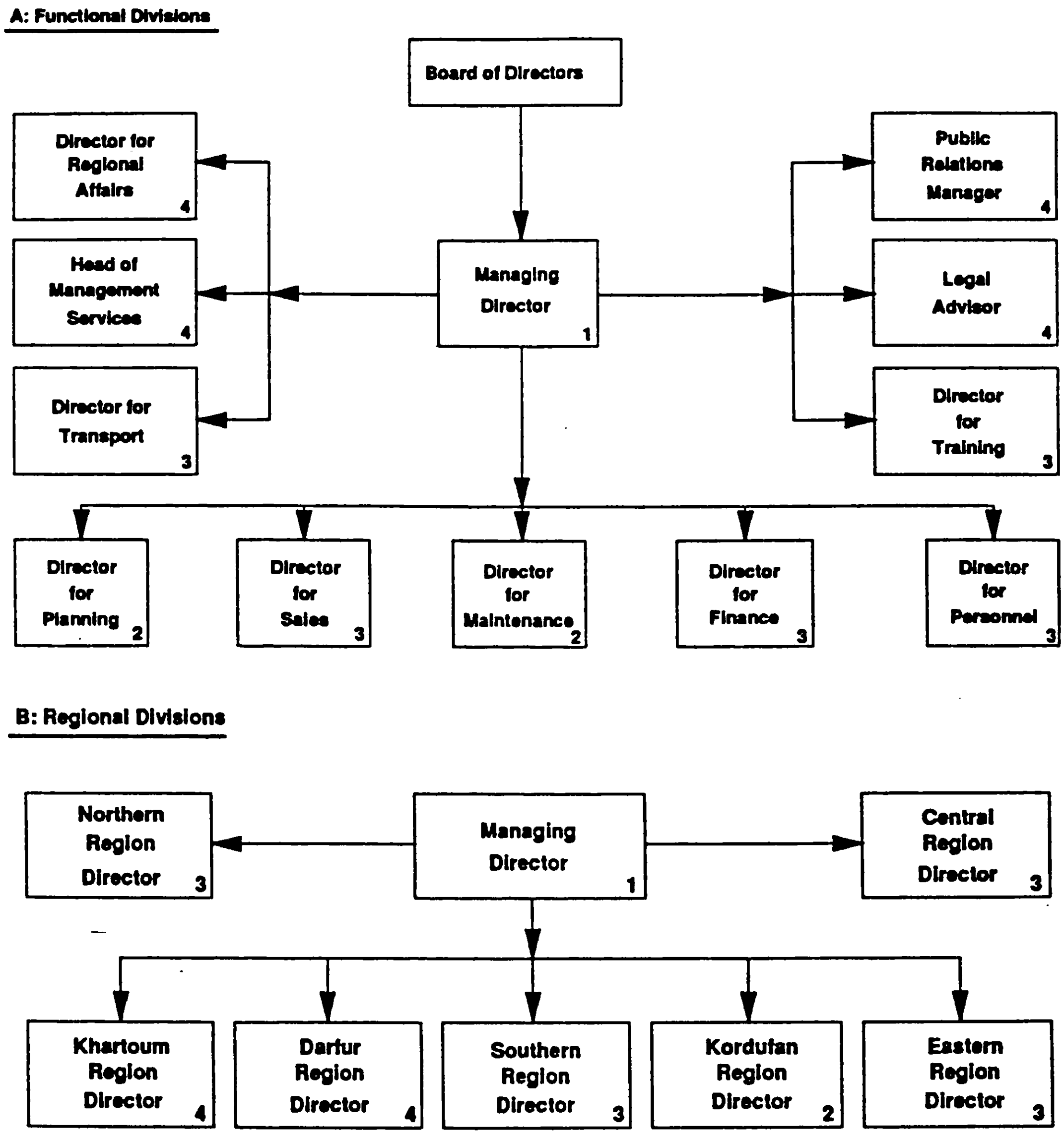
This similarity in structure arguably is not always desirable, not least because different organisations with varying sizes and ages, facing different and environment, using different technology may require different structures. Therefore, the organising function should have been based on the situation within which PEs operate. Indeed, this is the core of the "contingency theory", which emphasised that there is no one best way to organise and manage different organisations in different situations **(Otley,1980; Woodward, 1965; Lawerance and Lorsch, 1967)**. It is true that most PEs share common problems, such as obsolete plants, power failures, lack of foreign exchange, and the like. But, it is equally true that PEs in different parts of the country and in different sectors of the economy have different problems and face different threats. For example, the sugar industry involves two activities, the farm and the factory, which require the coordination of a number of government units. Needless to say, such interaction would necessitate a different organisation structure. Nevertheless, it appears that the Sudanese authorities have adopted a "ready made" model of organising, rather than a model based on the above contingent variables. The point is that, all these variables differ across PEs and change over time, and hence necessitate a different structure.

The effectiveness of the organising function depends entirely on the delegation of authority to managing directors, divisional managers and their subordinates to perform their tasks. The point is that, without adequate authority and clear lines of command, confusion will develop, to the detriment of long term success of the organisation. However, there are serious problems relating to authority delegation in the Sudan. The fact is that authority is often centralised at the top of the organisation or the central government. At the enterprise level, the span of management control provides a powerful demonstration of this phenomenon. In the Sudan Telecom Public Corporation, for example, there are 21 divisional and regional managers reporting directly to the Managing Director (chart 9.3).

More important, the very fact that there are no precise terms of reference for divisional and regional managers meant that they have to consult the Managing Director on routine operational decisions, such as distribution of fuel and recruitment of junior staff. In addition, simple decisions relating to minor changes in inputs prices often require approval from the central government. However, most PEs are located in remote rural areas with rudimentary communication services, and hence there are considerable delays caused by awaiting decisions from Khartoum.

The causes of this phenomenon (i.e centralisation) could be attributed, in part, to the lack of a clear public policy towards PEs, lack of specific terms of reference for PE managers, lack of qualified managers, and in part to cultural factors. For example, a recent study on the impact of cultural factors on management practices in the Sudan reported that "the pattern of organisation practised by the Sudanese managers is autocratic and paternalistic" (Hassan, 1982). The author attributes this state of affairs to the allocation of authority within the Sudanese family, where the father has absolute powers over the family members. This pattern, the author claims, "is transferred to the enterprise". Thus, the lack of interest, or even opposition to authority delegation and participative management among the Sudanese managers was attributed by the author to their belief that "participation undermines management powers, something they cherish and would like to keep".

Chart 9.3
Sudan Telecom Corporation
Present Organisation Structure



* : Numbers in boxes indicate grades.
** : The chart shows major reporting relationships.
Source: **Sudan Telecom Corporation, Khartoum.**

Another factor contributing to this anti-participative attitude relates to the fact that, in its 35-year history since independence, the country has experienced some 24 years of military regimes. Therefore, the dictatorship regimes have also influenced people's attitudes towards participation in management, and the conduct of business in general.

In summary, the organising function is not based on the characteristics of different PEs, and the authority delegation is extremely poor, creating a state confusion and frustration to PE managers. Indeed, PE managers are often unaware about the roles of various government departments with which they deal, and are unable to adapt their operations to the situations in which they operate. Likewise, they are often constrained by a multitude of rules and regulations over all operating decisions (personnel, finance, purchases, pricing, etc), which reduces their autonomy to carry out their managerial functions in a proper manner.

9.2.3 Control

Control as a management function is defined as the comparison of actual performance to standards, analysis of variances between standards and actual results, and correcting deviations. Thus, controlling involves three main tasks: establishing standards, measuring actual results against standards, and seeking explanation for variances so as to take the necessary corrective measures.

In the Sudanese context, however, the practice of control is deficient at both the central government and the enterprise levels. At the macro level, we have seen that there is a lack of data on important issues. At the enterprise level, inadequate control is the norm, leading to poor performance and wasted resources. For example, the absence of a sound internal control systems and cash flow forecasts lead to detrimental consequences, where PEs experience severe shortages of cash and essential inputs at critical moments, receivables remain uncollected for years and short term obligations unpaid.

A host of factors contribute to this state of affairs. First, is the lack of proper planning. Essentially controlling measures actual achievement against plans. But, in the absence of realistic targets, controlling becomes impossible. Second, since the accounts are years behind, accounting data are irrelevant for planning and control purposes. Moreover, efficiency auditing is unknown as illustrated by the fact that, the Auditor General does not obtain the annual budgets to be compared with actual results, though that might be meaningless given the backlog in accounts. Nevertheless, there is no evidence that the Auditor General has initiated and designed sound management information systems so as to facilitate control. As a result, PEs have accumulated huge amounts of debts and losses, unable to meet their current maturing obligations, no costing systems, and internal auditors report to financial managers, but were never questioned by the Auditor General. Management reports are often irregular, improperly analysed, and are irrelevant for control purposes as they are not provided on timely basis. Third, the fact that poor performance does not result in rewards has led to loss of motivation to exercise control. Moreover, the poor pay and the frustration caused by factors in the broader environment (e.g foreign exchange), have led to low morale and very high turnover rates. A related factor is that communication channels within PEs are informal and irregular. As the cases showed, divisional managers rarely meet, and team meetings with the managing director occur primarily at the budget time.

9.2.4 Staffing

As the cases showed, there are personnel departments in all cases, and indeed rank among the basic functional departments. But, in virtually no case were the personnel departments assigned the responsibility for the development of the manpower needs. According to the provisions of the 1976 Act, a "General Administrative Organ" was proposed to develop appropriate personnel policies that suit the needs of PEs. In the event, the "organ" never came into being, and PEs found themselves constrained by the manuals and circulars of the Civil Service Chamber, and hence have no autonomy over all personnel issues.

The quality of senior management, in particular, requires special comment, not least because the organisation success is determined, in part, by the competence of its top management. As the cases showed, however, the selection of management is often based on factors other than professionalism. The root cause of this problem dates back to the nationalisation period in the early 1970s, when a number of managers had to be appointed with some haste to cope with the influx of enterprises that came under public ownership. The natural concern of the government by then was political loyalty rather than qualifications in business management. At present, the criteria for the selection of PE managers is based, in part, on technical background and degrees. As a result, the chief executives of most industrial and the transport industries have come from the ranks of engineers, while those of the agricultural sector hold a degree in agricultural sciences. However, the system is distorted by complete reliance on political acceptance and seniority.

In the industrial sector, the responsibility to design and implement modern management practices was assigned to the Industrial Research and Consultancy Centre under the Ministry of Industry. The centre was established in 1965 by the United Nations Industrial Development Organisation (UNIDO), to render consultancy services for both public and private enterprises, in the fields of planning, production management, costing and financial management. Another unit, the "Efficiency Improvement Unit" was created to carry out these tasks for PEs. However, we found that the unit has failed to carry out its functions, solely due to severe staff shortages. Initially, the UNIDO brought in some expatriates to train the Sudanese nationals, on the assumption that they will takeover from the expatriates. But, due to the exodus of qualified staff to the Gulf, all the trainees have left, and the unit failed to operate in any efficient manner. At present, the unit is totally redundant, and the task of management development remains.

9.2.5 Turnover

As the cases showed, the turnover of senior management and trained staff has accelerated in the recent past, causing severe problems for the whole civil service, and in particular PEs. The reasons for this state of affairs are two-fold. First, the poor pay and the sharp deterioration in real income caused by the soaring inflation rates and the continuous devaluation of the local currency have led to mid-career departure. Second, in the Sudan, there is a law that empowers sectoral ministers to dismiss any civil servant for the so-called "public interest", without any specific reason or the right to appeal. It was meant to get rid of political opponents, and has been used quite extensively during the last two years (see chapter 13).

The higher turnover of management and experienced staff is detrimental for the long term success of any enterprise (public or private). In the Sudan, the problem is more acute, due to the scarcity of qualified managers, and lack of information. Indeed, as the cases showed, the lack of reliable, accurate data is the norm.

9.2.6 Training

Like all the other managerial functions, training is improperly planned and executed. Indeed, we found that no PE or sectoral ministry has a comprehensive manpower plan. The main reason is that, the training function for the whole civil service is the responsibility of the "National Administration for Training", under the Council of Minister. As a result, PEs have no autonomy to initiate training programmes. Nevertheless, it appears that training abroad is geared towards the needs of the individuals, rather than the needs of organisations. Indeed, all PE managers interviewed indicated that, university graduates often view training abroad as a right, and they usually go for the expensive academic training, which bears little or no relevance to the needs of their organisations. Similarly, on-job training is often neglected. Indeed, in the vast majority of cases, the training funds were used to finance other activities, or to supplement staff salaries, through bonuses and over-time premiums.

9.3 Managerial Autonomy

In this final section, we shall discuss issues relating to managerial autonomy, defined as the delegation of authority for PE managers to carry out their tasks in a proper manner.

Indeed, the very basic idea of PEs as a form of organisation centres around autonomy as a critical prerequisite for their success.

In the Sudan, all the laws establishing PEs have specified a degree of operational autonomy for PEs, which stems from the British influence prior to independence in 1956. For example, the Industrial Development Corporation Act, 1965, maintained that "The Board shall at all times act on commercial principles and shall not be subject to the directions of any other person; body or authority". The Public Corporation Act, 1971, maintained that "The sectoral corporation shall be responsible for the general supervision; control; coordination and evaluation of performance of branch corporations attached to it, without interferring in the internal affairs of such branch corporations". Finally, the Public Corporation Act, 1976, granted public corporations wide powers "to carry out all transactions conducive to the achievement of its objects; to enter into contracts and agreements as it may think necessary and fit; to acquire shares in other corporations of similar objects; to employ such workers as it may consider necessary for the performance of its functions; to borrow money from banks; and subject to the approval of the Minister, to acquire land and to establish branches and offices inside and outside the Sudan, whenever the nature of its business so requires" (**section 10.1**). Moreover, the 1976 Act empowered the Board to be "responsible for the management of the enterprise affairs; to prepare and approve annual budgets; to conclude contracts and agreements; to lay down plans for the enhancement and improvement of the management of the corporation, and methods and styles of its business" (**section 10.2**).

However, it is clear that the legislation has only had a limited application in practice in the Sudan. Two main reasons are responsible for this state of affairs: the excessive political interference, and the influence of the Financial Regulations Act, 1977. First, the role of the Minister responsible for the operations of a particular corporation (named in the Warrant of Establishment of each corporation) is decisive. It is interesting to note that the root cause of the problem lies in the law itself, which gave the Minister the power"to give general or specific directions to the Board in any matter relating to the corporation as he thinks to involve "public interest", and the Board shall act according to such directions" **(1976 Act, section 7.1)**. However, the very fact that "public interest" is often a loose term that lacks a specific definition, and that there was no clear public policy towards PEs, often induced Ministers to get involved in the day-to-day operations of PEs, at the expense of strategic guidance. Second, the Board is usually appointed by the Minister, which places the board at the mercy of the Minister. Moreover, the fact that the Board is composed, in the main, of civil servants, makes it difficult to imagine that they could ignore ministerial instructions, or that they would neglect their material interests once they sit on the Board. Third, the lack of information flows between PEs and the sectoral ministries forces ministers to get involved in order to understand what is going on. Indeed, frequently we hear that "the Minister is on a working visit to corporation x, to find out and solve the problems in the field". A fourth situational factor is that, in the Sudan, PEs are largely sole producers of basic consumer goods (e.g sugar, soap and oil; popular cloth and school uniforms), and in the wake of shortages, street riots might break out, and the Minister made the scapegoat. Therefore, to secure adequate supply of these products, at least for the urban population, the Minister gets involved in the day-to-day operations of PEs.

The second factor is the influence of the Financial Regulations Act, 1977, which were in conflict with the provisions and the spirit of the Public Corporations Act, 1976. This piece of regulation diluted the powers of corporation, the Board, the sectoral ministries, and centralised in the MFEP wide financial and administrative powers. This is largely because the sole objective of the Financial Regulations Act was to safeguard public money against theft and defalcation. To achieve this objective, therefore, the Act regulated in great detail the procedures governing financial transactions, such as cash; stores; budgeting, purchases and accounting systems, to the detriment of PE's financial autonomy.

9.3.1 Cash and stores

The 1977 Act explained in major detail the procedures governing the authorisation and payments of cash; issuance and receipt of materials; the persons involved in the treasury business, such as the person authorised to keep the keys, timing of closure, and stock-taking. For example, by law, no cash should be paid or received after mid-day; all cash payments must be signed by the Financial Manager. Thus, in addition to severely limiting PE's financial autonomy to structure their activities according to their needs, the Act has diverted the role of the Financial Manager from reporting to management, to devoting more time to routine and clerical work (**Musa, 1987**). However, while over-emphasising the objective of protecting public funds, the Act was absolutely silent on major issues, such as optimum inventory levels and optimum liquidity ratios to meet their current maturing obligations. As a result, PEs often run out of cash at critical points, and indeed some even fail to pay the salaries of their staff. Moreover, the Act made no attempts to improve efficiency and effectiveness of PEs.

9.3.2 Purchases

Likewise, the 1977 Act explained in great detail the procedures governing PE's purchases. For example, PEs must adher to the following procedures whenever a purchase of raw materials or spare parts is sought: (a) A committee should be formed to handle the purchase. (b) All purchases should be acquired by means of open tenders, and a period of four weeks must be allowed between the date of advertisement and the closing date. (c) The tenders are to be opened by the purchasing committee only after the expiry date.
(d) All purchases in excess of £s 50,000 (£12,000) and all foreign purchases must be approved and executed by the Central Purchasing Committee of the MFEP. The main complaint of PE managers is that the procedures are cumbersome and time-consuming, which are of relevance to government agencies, than to commercial enterprises operating in a dynamic environment.

9.3.3 Accounting and Budgeting Systems

PEs have no autonomy to design and implement accounting systems that suit their needs. Instead, they must adopt government accounting and budgeting systems, both in format and timing. Needless to say, the budgeting and accounting systems of commercially-oriented enterprises are entirely different from those applied in other public sector organisations, such as hospitals or the educational institutions.

9.3.4 Finance and Investment

PEs have no autonomy over financing decisions, where finance is obtained after painstaking negotiations with the MFEP. Indeed, almost all PE managers we have spoken to, have stressed this problem as the most limiting factor. They argued that "There are no rules or guidelines governing the procedures. It is totally subjective and depends solely on personal contacts". Similarly, PEs have no autonomy over investment decisions, which are the responsibility of the "Project Preparation Unit" under Planning Wing of the MFEP. Therefore, for all capital budgeting decisions (e.g expansion; replacement; and rehabilitation), an application must be submitted to the MFEP. Moreover, PEs are not permitted to sell redundant assets at their own discretion. Instead, an application must be filed to the "Disposition of Surplus Asset Department", of the MFEP, which organises an auction for that purpose.

9.3.5 Personnel

Under the 1976 Act, all personnel issues, such as creation of posts; promotion policies; salary structure and approval of annual budgets for posts, were assigned to the Boards of Directors and the "General Administrative Organ". The 1977 Act, however, assigned this role to the "Civil Service Chamber", under MFEP. In effect, PEs have no autonomy over all personnel issues, including training, disciplining their staff, or settling worker's disputes.

9.3.4 Pricing

PEs have no autonomy to set selling prices for their products and services, that reflect market conditions. As we saw earlier, all goods sold in the country are subject to government control at the wholesale and retail levels. Similarly, PEs that generate foreign earnings, such as the Sudan Telecom and Sudan Airlines, are not allowed to retain such earnings. Instead, all the foreign resources generated must be handed over to the Bank of Sudan, at the official exchange rate, which are pooled and reallocated according to the government priorities.

In general, the MFEP has gained a pervasive influence over PEs, partly by the advent of the Financial Regulations Act, which reduced the financial autonomy of PEs, and partly due to the financial difficulties facing most PEs, which forced them to seek the MFEP assistance. Profitable PEs, however, have managed, to a large extent, to protect their financial autonomy, as the Duty Free Shops case showed.

9.4 Conclusion

From the above discussion, it could be concluded that the government control over PEs involves too much intervention in operational matters, and little strategic guidance as emphasised by the law. The reasons for this state of affairs are two-fold. First is the lack of a clear public policy towards PEs, and lack of clarity of what the government wants to control. Second, lack of information flows between PEs and the government which leads to excessive government intervention in day-to-day management. Thus, as **Ayub and Hegstad** (1986) argue "The relatively short experience of many governments with the management of PEs, the excessive lines of control, the multitudinous objectives and tasks they are assigned, and the lack of adequate information flows between PEs and the government invariably lead to encroachment by governments on strategic and operational functions of PEs". Moreover, government controls over PEs rely exclusively on the extent to which they comply with the rules and regulations. A good example of this public administration philosophy is the fact that a main factor in evaluating PE managers is their knowledge of the relevant rules governing their activities.

Finally, it is evident that failure to exercise control is often attributed to a deficiency in the law, that requires the modification of the law. As a result, a large number of laws were issued to facilitate control (e.g the 1965 Act, 1971 Act, 1977 Act, etc). These laws, however, have created a multitude of rules, resulting in confusion and frustration to PE managers. Indeed, recognition that PEs are unable to function as autonomous entities, has forced the government to convert all industrial PEs into "private" limited companies, basically to allow them greater operational autonomy. However, the implementation was flawed in a number of respects, and hence failed to achieve its desirable objectives. These legal and other pieces of PE reform will be the main concern of the following two chapters.

Part Three

Public Enterprise Reform

and

Privatisation in the Sudan

Chapter Ten

The Reform Process (1)

The following two chapters will be devoted to the various pieces of the reform efforts devised by the Sudanese authorities to improve the performance of PEs. However, before outlining and analysing these efforts, a brief account of the macro-economic factors that led to the reform process will be outlined.

10.1 Macro-economic Environment

As we saw in chapter 8, the succeessive national governments have established a substantial number of PEs in the various sectors of the economy so as to accelerate socio-economic development. However, due to the reasons discussed previously, the productivity and financial performance of PEs were disappointing. As a result, losses mounted, exports stagnated, and the imports substitutes strategy never materialised. By the late 1970s, as local resources dwindled and the flow of foreign capital came to an end, the country faced severe financial crisis, and hence the public investment strategy that dominated the 1970s came to a halt. Instead, the government initiated a series of reform measures to revitalise the PE sector. However, the outcome of these measures has not been encouraging, simply because they were implemented in an incomplete and unsustained fashion. For example, in the early 1980s, the government tried to pursue a trade liberalisation policy, without preparing PEs to respond to a competitive environment, e.g. through clarifying objectives, improving managerial selection, rewards and autonomy, removing price controls and the like. As in other DCs, however, PEs failed to cope with the new environment, creating thereby a backlash against the policy, which was subsequently abandoned **(Shirley, 1989)**. Similarly, in a bid to promote exports, the government devalued the local currency many times over the last decade, bringing its value from £s 0.35 / US$ in 1978 to £s 12 / US$ in 1987. However, due to the declining production capacity, the devaluation measures failed to promote exports. Indeed, in the absence of supportive policies (e.g. rationalisation of prices), the devaluation policy has had a detrimental impact on industries (public and private) as it pushed up production costs, which were not matched by a corresponding increase in prices. Consequently, losses mounted, and despite the quantitative tarriffs imposed, imports by far exceeded exports, creating a current account deficit (table 10.1).

Table 10.1
Trade Balance Between
1982/83 and 19888/89
($ million)

	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Exports	821.1	942.2	800.4	702.4	701.6	660.9	750.3
Imports	1804.4	1640.4	1394.5	1394.5	1338.1	1132.3	1560.0

Source : Bank of Sudan, Khartoum

Similarly, the ratio of government revenues to GDP declined from 14.7 percent in 1980/81 to 9 percent in 1986/87 **(Bank of Sudan).** The reasons for this sharp decline include the poor performance of PEs, and the abolition of all taxes on personal income, business profits, customs and excise duties following the introduction of Islamic Laws in 1983. They were replaced by the "Islamic zakat" (taxes) on wealth, at a flat rate of 2.5 percent to be used for social welfare purposes (i.e. not remitted to the Treasury). Moreover, the excessive price controls and the severe shortages of consumer goods, accelerated black market activities, on which no taxes were paid. Indeed, the officials interviewed indicated that the tax obligations of the official market are being under-collected, due to the incompetence of the tax administration.

Implications for PEs

As the cases showed, almost all enterprises were incurring persistent losses, which were financed by foreign loans and government subsidies. However, as foreign finance started to slow down after the 1982 debt crisis, and public finances dwindled, these losses were no longer tolerated by the MFEP. Moreover, the under-utilised capacity noted earlier, resulted in acute shortages of basic consumer goods, which had to be satisfied through imports, using the meagre foreign resources available. Thus, the poor performance of PEs affected not only the Treasury, but also the public at large[1].

Consequently, the poor performance of PEs received the increased attention of the Sudanese authorities and the international aid donors and creditors, notably the World Bank and the IMF. In fact, the poor performance of PEs was singled out by the World Bank (1987) as the primary cause of the financial crisis experienced by the country throughout the last decade. In effect, a series of reform efforts were devised to revitalise the economy through improvement of PE's performance.

In this chapter we will discuss the reform processes of the industrial and agricultural sectors respectively. The following chapter will be devoted to the rehabilitation efforts, and the overall "Public Enterprise and Economic Management Project", proposed by the World Bank in 1987.

10.2 Industrial Sector Reform :

Legal Restructuring

In 1981, a "Presidential" decree was issued to convert all industrial public

[1] At present, imports are banned altogether on the grounds of self-reliance, under the slogan of "eat what we produce and wear what we make" introduced by the current government (see chapter 12).

corporations organised under the Public Corporations Act, 1976, into "private" limited companies, under the Companies Act, 1925 (the latest in the country). In the context of current Sudanese laws, the state can own all the shares in a company, creating "a state-owned private company", with no less than two shareholders and a maximum of 50 shareholders; or majority of shares in a company, creating "a state-controlled public company", with a minimum of 7 shareholders, but no maximum limit.

However, the objectives behind the legal conversion into companies were never spelt out in any official document. Indeed, the Presidential decree was absolutely silent on the motives behind the move. Nevertheless, the most often cited objective by the officials interviewed at the MFEP, Ministry of Industry and former ministers, was to provide industrial PEs with greater operational autonomy. The corporate form, the officials argued, has deprived these PEs of the flexibility and freedom required for commercial enterprises operating in competitive markets. Public corporations, for example, whether or not they are organised under the Public Corporations Act 1976, are in principle constrained by the government in terms of basic salary they could offer to their staff. That is, either the common scales for all public corporations that fall under the 1976 Act, or individual scales set by the government for different corporations, such as the Sudan Rail; Sudan Airways and the National Electricity Corporation[2]. Thus, by turning these corporations into companies, these PEs would be freed from the imposition of salary scales by the state. The companies are then able to set salaries and wages as they see fit; adjust them whenever a need arises so as to attract competent staff, and to link pay to performance. On the other hand, under the company form, each employee would be appointed by an individual contract, under the "Individual Relations Act, 1981, which stipulates clearly the authorities and responsibilities of every employee -- thus facilitating discipline; commitment and accountability of staff.

[2] Although public corporations have much greater latitude to provide additional allowances and devise various incentive schemes, all PE managers interviewed indicated that they are unable to compete with private sector for a number of skilled catergories.

Second, the company form would relieve industrial enterprises from the pervasive influence of the MFEP, in terms of budget approval; purchase and investment controls; and all other rules and regulations stipulated in the Financial Regulations Act, 1977. Under the company form, all the strategic and operational functions would be assumed by the Boards of Directors and the chief executives; thereby enhancing PEs financial autonomy. In short, the "private" limited companies were expected to develop and adopt private sector methods in their operating criteria[3].

Nevertheless, although these objectives seem sound and desirable, our investigation revealed that the implementation process was flawed in many respects. As a result, the newly created industrial companies continued to operate under the same rules, the same work force, the same accounting, budgeting, and management systems, and rely exclusively on the Treasury financing. In what follows, we will analyse the implementation deficiencies in terms of institutional reform, financial autonomy, macro policies, coordination,relevance of the companies Act to PEs, and the overall objectives of the legal reform.

10.2.1 Institutional Reform

Shirley (1989) outlines the reform of institutional framework in four main steps :

(1) "setting clear objectives for SOEs that can be translated into quantified and monitorable targets".

(2) "Providing managers with sufficient autonomy to achieve their objectives, and be held responsible for results".

(3) "Selecting managers competent to operate a commercial venture, and compensating them adequately".

[3] The quotation marks (" ") are meant to distinguish between the normal usage of the term "private" known in the literature, and that used in the Sudan.

(4) "Holding managers accountable for results including incentives and sanctions".

However, our investigation revealed that, the implementation process in the Sudan has deviated widely from the above steps. First, no effort was made to clarify the objectives of PEs. That is to distinguish clearly between social and economic objectives, and then to set specific financial targets, such as return on investment. Indeed, all the officials interviewed in the Ministry of Industry indicated that the primary objectives of Idustrial PEs remained as to :

(1) develop local resources to produce basic consumer goods, which otherwise would have been imported (i.e. import substitutes).

(2) develop rural areas, and create more jobs so as to contain rural-urban migration.

(3) promote exports so as to generate foreign earnings.

Likewise all PE managers interviewed emphasised the pursuit of the government socio-economic development plans as the primary objectives. The following statements are probably illustrative:

"our goal (textile) is to contain unemployment, and produce popular cloth at reasonable prices, and contribute to the Treasury through payment of excise duties".

"the primary objective of this factory (sugar) is to achieve self- sufficiency of this strategic commodity, at reasonable prices".

However, when asked about the changes in objectives that followed the legal restructuring, both the industry officials and PE managers responded "no changes". But why?

A senior industry official responded:

> *"to be honest, I really do not know. A Presidential decree was issued to convert all industrial corporations into companies, and we tried our best to implement it". He then added "by the way, the decree did not mention changing the objectives, you can read it".*

It is evident from these statements that, neither the industry officials nor PE managers have had a clear vision of the institutional reform that should accompany legal reform. As a result, no effort was made to clarify the objectives of the newly created companies, and hence the confusion between the social and economic objectives continued.

Second, no effort was made to improve the selection, appraisal, incentives and autonomy of management. Indeed, according to the provisions of the 1925 companies Act, all the staff, including the managing directors of the corporations turned into companies, should have been laid-off, and reappointed, if needed, under individual contracts, and placed under the "Individual Relations Act, 1981". In reality, however, that legal requirement has never been implemented. The reasons were two-fold. First, although PE managers and trade unions have accepted the legal restructuring as long as the conversion would relieve them from the civil service pay policy, they categorically rejected being placed under the Individual Relations Act, because that would give the employer a free hand to dismiss staff (the essence of autonomy). Second, the idea that each company would set its own salary structure based on its financial position was equally rejected on the grounds that, all workers are employed by the same ministry and hold the same qualifications. As a matter of fact, the trade unions were very militant on employment issues, and were able to draw a broad support for their cause among the intellectuals and the bureaucrats[4].

[4] This broad coalition was largely credited for overthrowing the former military regime in 1985, the regime that initiated the legal reforms.

Nevertheless, failure on the part of the government to resolve these conflicts, meant that the companies had to operate under the same work force, and the same salary scales set by the civil service chamber. Similarly, management selection continued to rely on bureaucrats with technical qualifications (e.g. engineers), political loyalists, and army officers, rather than professional business managers. As a result, the primary objective of granting the newly-created companies greater autonomy over personnel policies that would enable them to recruit and retain competent staff was defeated. Thus, it is evident that, the desire to protect employment was a major constraint to PE reform, and hence it would hinder the privatisation process too.

Third, the available evidence from the experience in other parts of the world indicates that, legal restructuring was often accompanied by massive financial restructuring. In the UK, for example, prior to privatisation, every effort was made to turn the industries around financially. Thus, many were financially restructured with their debts written-off, additional capital was injected, redundant staff were laid-off, and new management and accounting systems introduced **(Yarrow, 1986; Vuylsteke, 1988).** In the Sudan, however, there is ample evidence to suggest that the legal reform was meant as an end in itself. This is illustrated by the fact that, the public corporations were converted into companies without any sort of financial restructuring to put them into operating form, or even clearing the massive backlog in their accounts. Consequently, their poor financial structure has had a detrimental impact on their financial autonomy (see below).

Finally, accountability often requires regular flow of reliable information, clear targets, and a competent body to monitor performance. However, we noted earlier the difficulties in relation to the accounts,the main source of financial information. As a result, performance evaluation was reduced to a very subjective judgement. The following criteria were cited by the officials of the Ministry of Industry as indicators of success of a PE :

(1) *"If the PE produced 'sufficient' goods that are 'acceptable' in terms of quality and price".*

(2) *"If the PE contributed to community development, through creation of jobs and improvement of the standards of living in the area".*

(3) *"If the PE managed to finance its operations, that is, if revenues exceeded expenses or at least broke-even".*

10.2.2 Financial Autonomy

As noted above, public corporations were converted into companies without any effort to turn them around financially. As a result, the financially-troubled companies had no alternative to reliance on public funding, which hampered their financial auntonomy. This is because the Bank of Sudan refused in principle to extend credits to such companies on the grounds that, by law, the central bank can not lend to "private" limited companies. The state-owned commercial banks, on the other hand, hesitated to extend credits to these companies simply because their credit-worthiness was extremely poor. Indeed, in the few cases in which loans were granted, PE managers indicated that the procedures were cumbersome and time-consuming. The reasons are often two-fold. First, as noted in the previous chapter, there is no any single PE in the country with an up-to-date set of accounts upon which commercial banks can assess their ability to repay the loans. Needless to say, in order to safeguard themselves, bankers usually ask for more detailed and reliable information, which is often not readily available. Second, the very fact that these companies are public entities, caused some "justified" concerns among bankers to extend credits to them. The banks fear that, if at a later stage the companies failed to pay, they might be instructed by the Minister of Finance or the Council of Ministers to write-off such debts, which is not uncommon in the Sudan. In fact, one state bank **(The People's Cooperative Bank)** went into bankruptcy in 1983, solely due to loans extended, and then written-off on Presidential instructions.

Therefore, the only avenue that was available for these companies to obtain finance was the MFEP. However, being the fiercest advocate on accountability, the MEEP insisted that the companies must bring their annual budgets for review and approval by the MFEP before any funds could be made available - largely because the annual budgets are the only control tool available. Although the approval of budgets under the companies Act is the responsibility of the Board of Directors, the fact that these companies were in desperate need for finance and had no other alternative, forced them to obey. As a result, the legally autonomous companies continued the vicious circle of inflated budgets and subjective cuts, the rigid bureaucratic controls over budget structure and timing, purchases, investment and disposal of surplus assets. Consequently, the newly-created companies surrendered to the MFEP, thus defeating the other primary objective of legal restructuring, that is financial autonomy.

10.2.3 Macroeconomic Environment

A sound macroeconomic environement (e.g. flexible pricing and labour policies, realistic interest and exchange rates and adequate infrastructure) should be the key determinant for the success of PE reform. As it stands at present, however, the Sudanese authorities rely exclusively on administrative controls, rather than market forces. We shall discuss the macroeconomic environment in detail in chapter 12, registering for the moment the fact that, in the absence of a favourable business environment, legal restructuring in itself failed to generate significant turn around in productivity or financial performance. Indeed, the authorities have opted for sectoral reform rather than a comprehensive overall reform for the broader environment. The focus on sectoral reform, in turn, has meant that critical external issues common to all PEs were simply neglected. As noted in chapter 8, the principal factors contributing to the unsatisfactory performance of PEs were the distorted prices, controlled labour policies, severe shortages of foreign exchange, inadequate supply of public services, and unstable economic policies. Indeed, the various pieces of reform were seriously eroded by macroeconomic factors, not least because the success of PE reform would depend on the overall environment in which they operate.

The argument is that, given the excessive government intervention in the internal markets in the Sudan, the appropriate approach to PE reform is to implement profound and fundamental macroeconomic and legal reforms, and to ensure the continuity of such policies. However, as it stands, the macoreconomic environment has been far from stable, indeed economic policies often emerge on ad hoc basis, and do not follow any logical or systematic sequence, largely due to the political instability in the country. For example, while the previous government (1986-1989) had adopted a liberal trade policy, legalised foreign exchange dealings, and tried, helplessly, to move towards a market economy, the present government has adopted stringent price controls, and prohibited posession of, and trade in foreign exchange[5] (see chapter 13).

10.2.4 Coordination

As we pointed out earlier, the Presidential decree of 1981, abolished all sectoral industrial corproations, such as the Sugar and Distillery Corporation, Industrial Food Corporation and Industrial Leather Corporation. However, without getting into the pros and cons of such holding corporations, it worth noting that the abolition of the sectoral corporations, coupled with the absence of any central overseeing agency, has seriously affected coordination among the legally autonomous industrial factories. For example, the transfer of productive resources from one company to the other required the intervention of the Minister (see below). Moreover, there are considerable ambiguities regarding the exact legal status of the newly created companies; i.e. are they separate, autonomous legal entities, or just productive units to be attached to a central supervisory body ? Our investigation revealed that the exact legal status of these companies is not at all clear. Indeed, different

[5] In the period between October and December, 1989, three Sudanese were sentenced to death for the mere possession of foreign exchange.

structures were either being proposed or actually implemented in different sub-sectors. In the textile industry, for example, a "Sugar Board" to operate the whole industry, including the private sugar company (Kenana), while others advocate a holding company, "The Public Company For Weaving and Textile", was established to supervise the whole sector (12 mills), with the exception of the "Friendship Textile Company". The latter was organised as a separate legal company, reporting directly to the Ministry of Industry. However, the logic behind this distinction is not at all clear. An official in the Ministry of Industry claimed that the "Regional Governor" opposed the attachment of the factory to a central body, which we were unable to substantiate. The food factories, on the other hand, report directly to the Ministry of Industry, as no central body was created. In the Sugar industry, as we shall see in chapter 11, there are proposals to create a central body, but the exact nature of this body is not yet clear. Some of the officials interviewed think of establishing a "Sugar Board" to operate the whole sugar industry, including the private sector (Kenana), while other advocate establishing a "holding company" with a "modified" role from that of the repealed "Sugar and Distillery Corporation". In the event, neither the "sugar board" nor the holding company has been created as we shall see later.

10.2.5 Relevance of the Companies Act

Our investigation also revealed that there are deep concerns among the officials interviewed in the Ministry of Industry and the MFEP, regarding the relevance of the 1925 companies Act to public entities. The officials correctly noted that the 1925 Act was laid down by the British Administration to monitor the activities of private concerns. For instance, the Act has over-emphasised the role of shareholders in assuming ownership functions, such as appointing board members, reviewing and approving final accounts. Under the current Sudanese practice, however, the MFEP owns 99 percent of the shares of these companies and the other one percent is owned either by a state commercial bank or by the Sudan Development Corporation[6]. In effect, the shareholders of all industrial companies are

[6] This is basically to satisfy the legal requirement that a "private" limited company must be composed of a minimum of two shareholders.

only two government entities. Accordingly, the Annual Shareholders Meeting is attended by two civil servants, appointed by virtue of position, and without any financial stake in the operations of the company. Similarly, the Boards of Directors are appointed by the "shareholders" from the concerned minitries without specific terms of reference or adequate remunerations[7].

This practice is deficient on a number of scores, and probably contradicts the spirit of the law. First, taking into consideration the very high turnover rates in the civil service noted above, it is not difficult that a company could have different faces attending its annual shareholders meetings and a different composition of the board members each year. Second, the fact that the shareholders have no financial stake in the operations of companies, meant that poor performance and financial irregularities went unnoticed and unquestioned. A good example is the arrears in the accounts of these companies. Typically the functions of shareholders meetings include ascertaining the financial position of an enterprise, setting dividend policy, and replacing management if performance deteriorated. Needless to say, given the lack of timely and reliable accounting information, such tasks would be at best difficult. Indeed, our investigation revealed that, the present shareholders have done very little by way of rectifying this situation. Third, as we saw earlier, a board composed of civil servants have allowed bureaucracy to creep in, and influenced managerial behaviour and attitudes. Fourth, it was argued that the company form of organisation could deprive the government control over the 'private' limited companies. Indeed, this point has been over-emphasised by the officials of the MFEP. Although, at present, the officials managed to twist the arms of these companies due to their financial difficulties, the MFEP fear that in the future the situation might change. In the absence of an effective, well-staffed central overseeing agency, we believe, accountability could really be at risk. Nevertheless, as we shall see in chapter11, the MFEP insists that the central body must be accountable to it, but this was firmly rejected by sectoral ministries. As a result, the proposed central overseeing

[7] Monthly remunerations of boards members before being dissolved in mid-1989 by the incoming government were £s100 (£5).

agency has never been created. Indeed, even the ownership of the shares of these companies by the MFEP has generated heated debate between the MFEP and the Ministry of Industry. A senior official in the Ministry of Industry angrily argued that "We are all public employees, so what makes the officials of the MFEP superior to us ?"

Finally, all the officials we have spoken to, are of the opinion that a separate piece of legislation must be devised to deal with the newly created companies. We are not in favour of a separate legislation, if the objective is to grant the companies greater operational autonomy so as to improve performance, and at the same time maintain control. There is some evidence that this could be achieved under the company form as illustrated by the experience of the commercial banks. In the Sudan, the state banks were organised as "private" limited companies, with a great deal of operational autonomy, under the supervision of the Bank of Sudan. Indeed, they are relatively profitable, well-managed, and probably the only PEs with an up-to-date set of accounts. In 1987/88, for example, the four state-owned commercial banks reported a profit (before tax) of £s 125 million, an increase of 28 percent from the previous year **(Auditor General Report, 1987/88).** Therefore, it could be argued that, if there is an effective, well-staffed central overseeing agency and clear rules for state intervention in decision making, the company form under the company law, 1925, is probably the appropriate way of organising PEs. Any other form with emphasis on accountability as explicity stated by the MFEP, would undoubtledly cripple the industries. The shares of these companies could be owned by the central overseeing agency with specific terms of reference outlining the responsibilities of all the parties involved. Nevertheless, it must be repeated that, the problem of striking a correct balance between autonomy and accontability is universal, and has never been resolved worldwide. Indeed, it has provided an impetus for the recent interest in privatisation.

10.2.6 The Reform Objectives

As noted earlier, the ultimate objectives of the legal restructuring has never been spelt out in any official document. That is, was it an end in itself or just a first step towards denationalisation ? This state of affairs, in turn, has created a sense of unrest among the militant trade unions. Indeed, assuming that the legal reform is just a step towards full privatisation, the unions arranged a series of industrial actions, which paralysed the reform process[8]. These sorts of speculations were more powerful in cases where "the Sudan Development Corporation" was made a shareholder, because by its articles of association, the corporation could sell its equity in PEs to private investors.

Indeed, all PE managers interviewed attributed the delays in implementation, in part, to the uncertainty created by the legal reform. They pointed out that, the unions assumed that privatisation will soon follow, so they became less committed and started to think of their own fate. Such behaviour, however, seems to be consistent with the experience elsewhere. For example, **Heald (1990)** argues that "The civil service and PE managers charged with the implementation of the reform packages often believe that the reform is an inferior substitute for (some ill-specified form of) privatisation. Without the enthusiasm and belief on the part of key actors, it is difficult to be optimistic about the chances of success". Moreover, major issues at the macro level, such as the effects of drought, the question of the legal system, the civil war and preoccupation with maintaining the coalition forming the government together have diverted the attention from the economic issues. As a result, the implementation process was delayed, creating confusion, frustration, and uncertainty.

In summary, we believe, neither the military government, nor the elected government had had a clear vision about what should be done or the political will to undertake radical

---

[8] The reform was initiated by a military regime, while implementation had to take place under an elected government, where trade unions were active.

decisions regarding employment and prices. But, without these fundamental changes, it is difficult to suggest that legal restructuring alone would produce tangible results. Second, there is evidence that the legal restructuring was meant as an end, rather than a means to improve economic efficiency. The absence of any effort to reform the internal operating criteria (e.g. clarifying objectives, strengthening management selection and rewards, introducing commercial accounting systems, laying-off redundant staff, and granting sufficient autonomy to management), and measures to foster competition and market-based prices, provide a powerful demonstration of this assertion.

10.3 Agricultural Sector Reform

Agriculture in the Sudan is the single most important sector of the economy. It accounts for about 45 percent of GDP, and employs around 80 percent of the work force. Indeed, the manufacturing sector largely depends on the agricultural sector either as a source of raw materials (e.g. cotton, sugar cane, or groundnuts), or as a source of foreign exchange to acquire imported inputs. Therefore, the effficiency of the sector is a key determinant of economic performance. Indeed, the only way to promote exports and restore the country's credit-worthiness would be through a significant turn around in the productivity of the agricultural sector. There are three main schemes, which together cover around 63 percent of land under irrigation, each organised as a public corporation. In what follows, we shall outline and discuss the reform process of the eldest (1925), and largest (2.1 million feddans) aagricultural scheme, the Gezira Scheme.

The Gezira Scheme was established by the British Administration in 1925, to supply the British textile industry with raw cotton. However, it came to play a significant role in the Sudanese economy in the post-independence period. The scheme is located in Central Sudan between the Blue and White Niles, where conditions are favourable for cotton production. It uses gravity irrigation and cultivates cotton; wheat; groundnuts; sorghum and vegetables.

However, cotton is the single most important crop, as most of the production is available for exports. In terms of administration, the scheme is divided into 107 "blocks", each of which represents an accounting unit, headed by an agricutural inspector.

By the early 1980s, cotton production declined to its lowest levels ever (table 10.4). Therefore, in a bid to improve productivity, the traditional production relations were modified from the "Joint Account System" (JAS), to the "Individual Account System" (IAS), in 1981/82. Under the former tenancy relationship (JAS), the total costs of a variety of agricultural inputs provided by the scheme management were deducted from the gross proceeds derived from the sale of different crops[9]. The surplus was then divided between the partners (the government, management and tenants) according to a certain ratio. The following table shows the historical development of the tenancy relationship.

Table 10.2

Development of Partner's Shares

(1950 - 1980)

Season	Govern-ment %	Tenants %	Manage-ment %	Local-government	Social Services	Tenants Reserve Fund
Pre 1950	35	40	25			
1950/51- 1956/57	40	40	20			
1957/58- 1962/63	42	42	10	2	2	2
1963/64- 1965/66	40	44	10	2	2	2
1966/67- 1968/69	36	48	10	2	2	2
1969/70- 1980/81	36	47	10	2	3	2

Source : Gezira Scheme

9 The major items of the joint costs were; land preparation; agricultural inputs (seeds; fertilisers, pesticides, etc); harvesting; packaging materials; transportation; insurance and selling expenses.

We shall refer to these tenancy relationships in the course of the discussion that follows. Nevertheless, as it was, the Joint Account System (JAS) suffered the following major built-in deficiencies. First, by averaging costs, the system does not provide incentives for good producers; in fact it subsidised inefficient tenants. That is because tenant's share of net proceeds was divided equally between tenants.

More important, in theory, the production costs of non-cotton crops were supposed to be deducted from the proceeds of those crops. However, the fact that other crops (i.e. wheat, groundnuts, etc), were marketed directly by tenants, meant that the government was unable to recover the production costs of these crops from tenants.

In effect, these costs were added to the joint costs, and deducted from the cotton proceeds - thus creating a distorted cotton costs. These distorted costs, in turn, made tenants to regard cotton as the "government crop"; consequently they were encourageed to exert more effort and time on non-cotton crops, at the expense of cotton; the country's main export. Therefore, cotton yields declined from 5 kantars per feddan in 1970/71 to 2.3 kantars/feddan in 1980/81[10] (table 10.4).

Second, the JAS leads to continuous disputes between the partners regarding the share of each. As table (10.2) reveals, between 1950 and 1970, the partner's shares were revised five times, largely to the advantage of tenants. Indeed, the only period that witnessed some sort of stability in the tenancy relationship is the period between 1970 and 1980, the military regime period. In fact, there is a positive relationship between the political system and stability of tenancy relationship. For example, between 1965 and 1969, when there was a democratic government, the production relations were revised twice, incidently to the

[10] Kantar = 50 Kilogram = 110 lb;
Feddan = 0.42 hectare = 1.04 acres.

advantages of tenants. Therefore, it could be argued that the temporary stability between 1970 and 1980, is attributed to "fear" from the regime rather than fairness of the system or any other factor.

Third, as production costs of non-cotton crops were added to joint costs; total costs exceeded cotton proceeds; consequently the scheme incurred persistent losses, and tenants debts mounted. As we shall see later, tenant's share of losses is recorded as debts, and carried forward to the next season. Fourth, net proceeds were not available for distribution before they were actually earned, i.e. at the date of sale of the whole output. Thus, the system created a liquidity problem for tenants, and disturbed the government budgeting system, not least because the marketing process usually takes more than a year to be completed.

These are but some of the deficiencies of the JAS. In an effort to alleviate these shortcomings, and hence enchance cotton yield to restore the export growth; a new system, "The Individual Account System" (IAS), was introduced in 1981/82. Under the IAS, the government receives a fixed charge for the provision of land and water, determined semi-annually by the government. As table (10.3) reveals, the land and water charges showed an upward trend for all products since they were introduced in 1981/82.

Tenants, on the other hand, are entitled for the value of their output in full, after deducting the production costs provided by the scheme management and the Land and Water charges. The system operates as follows : The scheme management borrows from the Bank of Sudan so as to provide seasonal advances to tenants, which are used to finance agricultural opreations. An interest charge of 8 percent is levied on these advances. The state acquires all the cotton produced at the ginneries gate, at a price determined by a national committee composed of the MFEP, Ministry of Agriculture; Agricultural Research Centre, and the scheme management. Thus, expenses beyond the ginneries gate are the responsibility of the state. However, the salaries and overhead expenses of the agricultural inspectors; field accountants and canal guards are treated as administrative expenses, and hence incorporated in the annual budget of the scheme. The optimum use of fertilisers, pesticides and the frequency of watering is a joint business between the scheme management and the Agricultural Research Centre. The allocation of land for the different crops is determined by the Ministry of Agriclutre in accordance with the government priorities.

Table 10.3
Land and Water Charges per feddan
(1981/82 - 1987/88)
(£s)

SEASON	Cotton	Wheat	Groundnuts	Sorghum	Vegetables	Total
1981/82	28.5	14	18	7	25	92.5
1982/83	28.5	14	18	7	25	92.5
1983/84	38	23.75	19	19	33.25	133
1984/85	50	31	25	25	44	175
1985/86	65	40	32.5	32.5	57	227
1986/87	80	49	40	40	70	279
1987/88	101	62	50	50	90	353

Source : Gezira Scheme

10.3.1 Advantages

The "Individual Account System" (IAS) has the following major advantages. First, it avoids the cross-subsidisation of the former system. Under this system, each tenant is personally liable for his costs, and receives the full value of his output. Thus, there are incentives for tenants to improve productivity in order to maximise their earnings. Indeed, there is evidence that cotton production has increased dramatically in recent years (table 10.4). However, this is not to suggest that tenants earnings have increased in direct proportion with output, or that the turn-around in productivity is attributed to the introduction of the new system alone (see below). The following table compares cotton productivity under the two systems.

Table 10.4
Cotton Yield (Kantar / Feddan)
1976/77 and 1986/87

(a) Joint Account System

YEAR	1976/77	1977/78	1978/79	1979/80	1980/81
YIELD	3.6	4.3	3.3	2.6	2.3

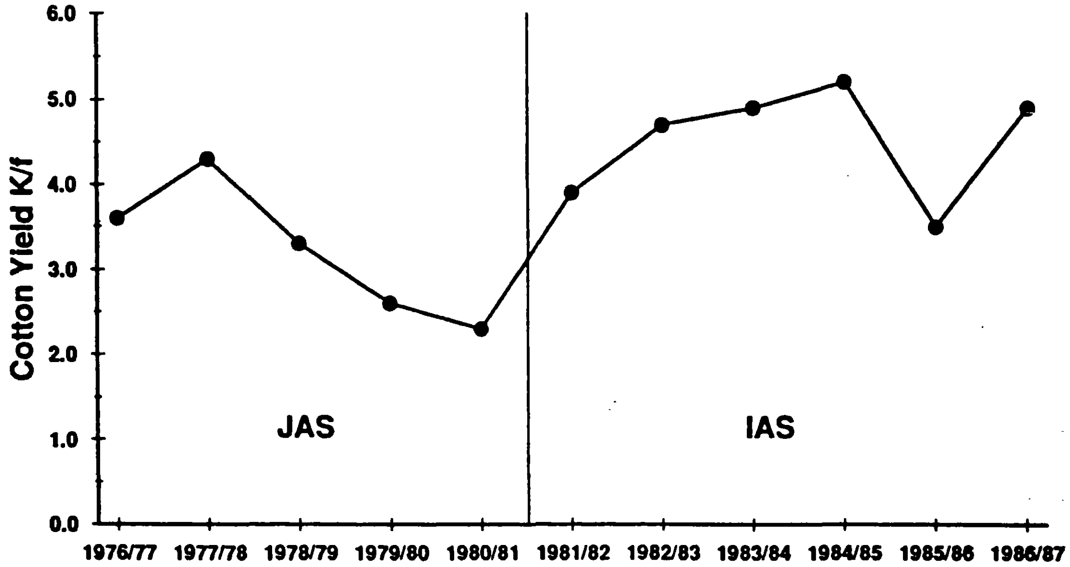
(b) Individual Account System

YEAR	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87
YIELD	3.9	4.7	4.9	5.2	3.5	4.9

Source : Scheme records

Thus, it is evident that productivity has improved remarkably following the introduction of the new system. However, the scheme was under a major rehabilitation project during this period, which made possible the flow of essential inputs on a timely basis. Therefore, it is difficult to attribute the dramatic improvement in productivity to the introduction of the system alone. A second advantage is that, tenants are now being paid at a specific time (June of each year), regardless of whether the output was sold or not. Thus, the system alleviates the tenants liquidity problem noted earlier. However, by so doing the system has created a liquidity problem for the state (see below).

Graph 10.1
Cotton Yield (Kantar/feddan)
Under the Two Systems
(1976/77 - 1986/87)



10.3.2 Disadvantages

The system has the following major deficiencies. First, under this system, tenants are fully responsible for all the costs incurred, though they have no control over inputs; selling prices, or the cropping pattern. The amount of fertilisers and pesticides to be applied, and the frequency of watering is determined by the scheme management in consultation with the Agricultural Research Centre. The Land and Water rates, and the selling prices are determined by national committees, while the allocation of land among the different crops is determined by the Ministry of Agriculture.

However, we shall increasingly argue that, the practice of holding tenants accountable for all the costs incurred without being able to influence the cost structure, is unfair and could be conterproductive. Indeed, the Sudan Tenants Union Federation has repeatedly complained of being "by passed" by the authorities when fixing selling prices, and the land and water rates. Second, the system does not provide incentives for the scheme management to control costs, since they have no financial stake in the profitability of the scheme. Furthermore, there is no management appraisal system. However, judging from the publicity attached to productivity in the local media and official statements, it could be fairly assumed that management's main target is to maximise output so as to generate as much foreign earnings as possible for the Treasury. Therefore, as costs are bourne by tenants who are paid in local currency, it could be argued that the scheme management would try to maximise the output regardless of the costs incurred.

Indeed, there is evidence that production costs have increased dramatically in recent years, without being matched by a corresponding increase in selling prices. In particular, the costs of fertilisers and pesticides have risen, which accounted for about 50 percent of production costs. In fact, all the agricultural scientists we have spoken to, at the Agricultural Research Centre, indicated that, because they are not applied at the right time, the use of fertilisers and pesticides is ineffective and excessive by any standards (see below). Consequently, we found that the ratio of tenants who failed to break-even amounted to 48 percent in 1988/89 season - accordingly tenant's debts mounted. The following tables summarise this state of affairs. Table (10.5) shows the average cotton cost of production per feddan between 1981/82 and 1986/87, while table (10.6) outlines selling price per kantar for the two varieties of cotton cultivated (long and medium stables), and the accumulated tenant's debts during the same period.

It is evident that, a combination of devaluations and soaring inflation rates, coupled with lack of motivation to control costs have trebled production costs, which reinforces our earlier argument that the main concern of management is to maximise output at any cost.

Table 10.5
Average Cotton Costs per feddan
between 1981/82 and 1986/87
(£sd)

Season	Land Preparation	Culti-vation	Harves - ting	Fertiliser and Pesticides	Land and Water	Interest	Trans - port	Total
1981/82	15.96	21.60	40.06	117.13	28.5	4.7	5.93	233.88
1982/83	21.92	22.85	51.07	136.45	28.5	27.02	7.23	295.04
1983/84	33.80	33.64	66.70	201.27	38	37.76	15.03	426.20
1984/85	37.41	30.61	62.65	199.44	50	30.01	25.50	443.62
1985/86	48.88	43.15	86.89	436.22	65	74.27	23.18	777.59
1986/87	65.22	53.55	155.47	396.90	80	53.19	33.60	834.93

Source : Gezira Scheme.

Table 10.6
Selling Prices and Tenant's Debts
Between 1981/82 and 1986/87

Season	Selling Prices / Kantar		Accumulated Tenant's Debts (£s m)
	Medium Stable (£S)	Long Stable (£S)	
1981/82	66	85	78.5
1982/83	68	87	91.3
1983/84	82	107	125.8
1984/85	106	135	229.6
1985/86	152	215	340.1
1986/87	158	245	471.2

Source: Gezira Scheme.

Nevertheless, it must be stressed that the Gezira tenants are relatively in a better position than their counterparts in other schemes. This is because cotton prices are set at the national level for all cotton produced in the country, regardless of the cost structure of the scheme in which cotton was grown (e.g. method of irrigation, size or age of the scheme).

For example, land and water rates in the Gezira Scheme, which uses gravity irrigation, are much lower than in other schemes that uses pump irrigation, such as the Rahad Scheme. Second, the well-established Gezira Scheme (1925) has a fleet of agricultural equipment, which are used to provide some agricultural operations (e.g. deep ploughing) at subsidised rates, while other schemes rely solely on the private sector to provide these services at the market rates[11].

In either case, however, selling prices have failed to keep pace with the ever rising production costs; consequently tenant's debts mounted over the years (table 10.6). Moreover, the government again failed to collect the land and water charges on non-cotton crops, which are still sold directly by tennants[12]. In effect, the land and water charges on these crops were added to cotton costs and deducted from cotton proceeds, whenever possible. The management collection policy is to deduct these charges, from the cotton proceeds whenever a tenant achieves a surplus. If the net profit is insufficient in this year, the charges are recorded as debts and carried forward.

However, to avoid payments, tenants have developed a very peculiar practice. The tenant (say A) with significant acculumulated debts, would transfer his output to another tenant (say B) with no, or insignificant debts. Tenant (B) then cash in the proceeds, and remits tenant (A) the value of his crop. Thus, tenant (A) is theoretically insolvent, though in reality he might not. The scheme management while acknowledging the presence of this illegal practice, admitted that they failed to control it. They employed guards, but this solution did not work because the guards were paid the legal minimum wage rate (£s 300 per

[11] The state is currently contemplating the privatisation of these services.

[12] In March, 1990, the government used the armed forces to capture all wheat produced in the irrigated schemes. However, the aim was largely political, so as to claim that the Revolution had achieved self-sufficiency in wheat supply, and eliminated importing American wheat, under the slogan of "eat what we produce and wear what we make".

month, £15), and more importantly, they were often recruited from the same community that is highly inter-related.

Other factors beyond the control of tenants is the regular supply of water and other inputs. Clearly, failure on the part of the scheme management to provide these critical inputs on a regular and timely fashion would reduce the yield, which in turn reduces the tenants earnings. Indeed, both the water supply and imported agricultural inputs were often cited as the most limiting constraints. In the Gezira Scheme which uses gravity irrigation, the drought of the recent years, the poor canal maintenance, and the dual management of the irrigation system between the Ministry of Irrigation and the Ministry of Agriculture, have adversely affected the delivery of water to tenants. The frequent power failures have similarly disturbed water supply to other schemes that rely on pump irrigation.

Another area where excessive government intervention and controls work to the detriment of production is in the acquisition of imported agricultural inputs, such as fertilisers, insecticides, and jute sacks. The problem here is mainly timing, because late arrival of critical inputs is the norm, inflicting serious damages to crops (see below). Apart from the severe shortages of foreign exchange, the MFEP considers applications for imports only on a quarterly basis, and the Bank of Sudan releases foreign exchange only when full account is provided on how the previous allocations were utilised. The acquisition of spare parts is subject to even more complicated procedures, because unlike agricultural inputs, spare parts needs are not assessed on seasonal basis, but rather when the need arises.

As a result, failure to provide essential agricultural inputs on timely basis causes serious damages to the crop, and the victim is the tenant. For example, in the 1988/89 season, jute sacks arrived one month late for cotton picking, causing an estimated loss of about 15 percent of the value of cotton. The late arrival of fertilisers and other agricultural inputs is even more damaging, not least because cotton is a sensitive crop that requires certain treatments to be applied at a certain point in time. Nevertheless, it is the tenant who suffers, though he has no control over the supply of all inputs. It is the government who provides irrigation and foreign exchange to acquire inputs.

Third, the system demands more books of accounts, more clerical work, and consequently more accountants. Indeed, the load for the accountants has almost doubled following the introduction of the new system. For example, at the "Block " level, there are separate ledgers and subsidiary ledgers for each tenant to record transactions pertaining to different crops. In addition, the accountants usually perform other tasks, such as typewriting, store-keeping, cashiers and the like. They told the researcher that, "during the peak season (April to June of each year), we work more than 15 hours a day to prepare tenants statements; pay the tenants proceeds and close the accounts". As we pointed out earlier, this period also coincides with the preparation of the annual budget, which adds an additional burden on the accounts section. Lack of supporting facilities (e.g. calculators, stationaries, etc) were other complaints of the accounting staff. For example, the salaries of the whole staff (around 20,000 employees) are prepared manually. Furthermore, we observed that a large number of files and other valuable documents were thrown on the corridors, due to a due to lack of storage facilities. All these factors contributed to a demoralised staff, which affected productvity indirectly as a vital service unit.

Fourth, the system does not take into consideration the soil fertility in different parts of the scheme, which is a very important variable. That is because the scheme is composed of two main parts; the Gezira part which was established in 1925, and the Managil extension established in the 1960s. At present, for a tenant to break-even, he must produce 4.5 Kantar/feddan of medium stable, and 3.5 Kantar/feddan of long stable cotton. In fact, the available evidence from the scheme records suggests that, this production target is usually well below the average productivity in the Managil extension, while it requires considerable effort and large amount of fertilisers to be attained in the Gezira part. That is because the Gezira part has been cultivated for than 50 years, and hence the soil has lost its fertility. Indeed, our investigation revealed that, of the 48 percent reported to have failed to break-even in the 1989/90 season, almost 40 percent came from the Gezira part. An alternative could be to allow these tenants to cultivate other crops (e.g. wheat, vegetables, sorghum, etc), which might be suitable in this soil. However, the Agricultural Manager asserted that, since other crops are marketed directly by tenants, it would be exceedingly difficult for the scheme management to collect the land and water rates on these crops. Moreover, he stated that, it would set a very serious precedent for other tenants in different part of the scheme to demand similar treatments.

Fifth, the system is socially disadvantageous to the inhabitants, simply because under the former system, 3 percent of net proceeds was allocated for social services. These funds were used to provide clean water supply; protect inhabitants against water-bourne diseases (e.g. malaria and bilharsia) through continous spraying of canals; provision of educational facilities and health care. Under the present system, however, such services are no longer provided.

From the above discussion, it can be concluded that tenants are fully responsible for all the costs incurred; shortages of irrigation, and risks of diseases, though they have no control over agricultural inputs; water supply or the selling prices. The government, on the other hand, receives a certain predetermined land and water rates regardless of the yield or costs. However, this is not to suggest that the new system is favourable to the government. On the contrary, the system requires full payment to tenants regardless of whether the crop was sold or not. Indeed, the timing of payment (June of each year) coincides with the end of the fiscal year, and hence creates a liquidity problem for the state.

Second, as we pointed out earlier, there are a number of cost items which are directly related to production, but are treated as administrative expenses, rather than production costs. These include the salaries of agricultural inspectors, field accountants and the associated overhead expenses, such as cars, houses and other fringe benefits. Consequently the administrative expenses mounted and constituted a real burden on the treasury. Although the land and water rates were continuously showing an upward trend, the MFEP repeatedly claimed that the rates are insufficient. The officials interviewed pointed out that, the persistent losses incurred by the scheme are largely attributed to the lower land and water rates. It might be true that land and water rates are low, however, it is very difficult to accept such arguements. According to this system, the scheme is a cost centre rather than a profit centre, simply because land and water rates are centralised revenues that belong to the central Treasury. Therefore, it is not easy to construct a Profit and Loss Account for the scheme under the present system. Nevertheless, I believe, the real issue as far as the MFEP is concerned, is not that the rates are too low, but rather failure to collect these revenues from the scheme. This is largely attributed to two main factors: (1) failure on the part of tenants to pay these rates, because costs have exceeded cotton proceeds, or (2) failure on the part of management to remit the revenues collected to the Treasury. That is because, due to the severe liquidity problems of the schemes management has retained these revenues to finance its administrative expenses. In 1987/88, for example, the Gezira scheme paid to the Treasury only £s13 million, out of £s35 million estimated revenues required in land and water rates (MFEP). Furthermore, the Bank of Sudan usually provides short term (seasonal) loans to finance agricultural operations. The assumption is that these loans would be repaid at the end of the season. In reality, however, the agricultural schemes have failed to repay these advances, and consequently, the accumulated debts of the sector to the central Bank amounted to £s 1105 million by the end of 1987 (Auditor General Report, 1987/88).

In summary, therefore, I believe the new system favours neither the tenants nor the government. The tenants although responsible for all costs incurred, and all the risks associated with production, they have no control over inputs, selling prices or cropping patterns. The Government has failed, for one reason or the other, to collect the land and water rates, its main source of revenues. The scheme management has no financial stake in the profitability of the scheme, and hence has no motivation to control costs. There is no management appraisal system, and management has no autonomy over operating decisions. As in other sectors of the economy, the MFEP maintains pervasive influence over personnel policies, budget format and timing, purchases, finance and investment.

Chapter Eleven

The Reform Process II

Concurrent with the reform process discussed in the previous chapter, the authorities also initiated rehabilitation projects for the different sectors of the economy. In this chapter we shall outline and discuss these projects. In the first section, we shall discuss the sugar rehabilitation project, viz : its objectives, effects on sugar production and the main implementation defects. The second section will be devoted to the overall "Public Enterprise and Economic Management Project".

11.1 Structure of Sugar Industry

As part of the industrialisation process in the 1960s, two sugar factories were established, Guneid (1962) and New Halfa (1965). In the 1970s, however, the state embarked on an ambitious development programme for the sugar industry, partly to satisfy local demand, and partly to export sugar. In effect, four sugar estates were initiated, though only two (Sennar and Assalaya) were made operational, while the other two (Mellout and Mangala) were never operated due to the outbreak of a civil war in the area. Each of the four factories is composed of a sugarcane farm served by an extensive irrigation system, a sugar factory, and a fleet of agricultural equipment for cultivation.

As the Guneid Sugar case showed, the responsibility for the sugar sector policy and operation is divided among a number of government departments. These include the Ministries of Industry, Finance and Economic Planning, Commerce, Agriculture, Irrigation, Energy and Transport.

11.1.1 The Need for Rehabilitation

As table 11.1 reveals, sugar production compared to the installed capacity has declined to its lowest levels in the late 1970s and early 1980s. Indeed, the industry was operating, on average, at one-third of the designed capacity. Therefore, the immediate concern was to improve sugar production, at least to satisfy the growing local demand.

Table 11.1
Sugar Production (Tons)
(1977/78 - 1982/83)

YEAR	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83
Production	138,389	119,524	131,299	100,327	73,932	130,424
% of capacity	38.9	33.7	36.9	28	20.8	36.7

Source : **Public Corporation for Sugar Trading, Khartoum.**

In a bid to revitalise the industry, two pieces of reform were initiated in the early 1980s : one, legal restructuring to provide the sector with greater operational autonomy, and two, rehabilitation of the sector. However, as we saw in chapter 10, the objective of granting the industrial sector greater operational autonomy never materialised, basically due to serious implementation deficiencies. As a result, the newly created companies continued to operate under the same restrictive government rules and regulations, the same work force, and the same management practices. Not surprisingly, therefore, the legal restructuring did not produce significant turnaround in productivity or financial performance.

Nevertheless, recognition that autonomy alone is insufficient to provide a solution to obsolete plants, deficient irrigation systems, or provide the much needed spare parts, have encouraged the government to seek the World Bank support. In response, the International Development Association (IDA) commissioned Tate and Lyle to identify critical areas that need support and to devise a rehabilitation programme. After extensive empirical investigation, the consultants proposed a five year rehabilitation project, covering the following areas : agriculture, irrigation, the factory, infrastructure, and the supporting services (namely training and management).

The programme was scheduled to commence in 1983/84, with the objective of improving cane yield, and raising total quantity of sugar produced to 316,000 tons by the end of the project life in 1988/89[1]. However, due to financing difficulties, the project barely started in 1986/87, and the original production target to be attained by the end of the rehabilitation process (i.e. 1992/93), was modified to 278,600 tons of sugar (the Sugar Project Implementation Committee, Khartoum).

11.1.2 Project Costs

The total project costs amounted to $183.1 million , and were financed as follows :

Source	IDA	Arab Fund	Saudi Fund	Germany	Sudan
Amount ($m) (Ratio %)	60.3 33.3	59 32.6	38.5 21.3	23 12.7	2.3 0.1

11.1.3 Project Management

Following the agreement between the Government of Sudan and the World Bank in 1983, a "Sugar Project Implementation Committee" (SPIC), was established to coordinate the project.[2] However, due to the change of government in April, 1986, substantial changes in the staff was introduced by the incoming elected government. At present, SPIC is headed

[1] Approximately, 55 percent of this production target was planned to be achieved through increases in cane area; 35 percent from improved cane yield, and 10 percent from enhanced extraction efficiency within the factories.

[2] A summary of this agreement will be provided in the appendix.

by a Sudanese chairman, assisted by technical, procurement and administrative managers. In addition, there is a project adviser (expatriate), and three conslutants (two expatriates and one national) in the fields of finance and sugar technology.

The SPIC was assigned the following major tasks : (1) To provide strategic planning and render policy advice in relation to the rehabilitation programme, and supervise the project. (2) To monitor the performance of the factories to achieve the specified production targets. (3) To provide technical assistance to the factories, identify critical areas that need further technical support and supervise the consultants. (4) To prepare proper accounting and management systems that enable the factories to operate on sound commercial basis. (5) To establish sound personnel policies, including a comprehensive incentive system to enable the factories to attract and retain competent staff **(SPIC, Khartoum).** The SPIC would be liquidated six months after the expiry date of the project.

Our investigation revealed that, although SPIC is mandated to implement the rehabilitation project, in fact it has been handling such issues as timely availability of essential inputs and recurrent operating problems, due to the organisational vacuum created by the liquidation of the "Sugar and Distillery Corporation". Indeed, the chairman complained that " companies usually turn to this office to solve operating problems, such as finance and inputs, which are not our functions". By our observation, however, it appears that he is "enjoying" these tasks at the expense of his duties outlined above.

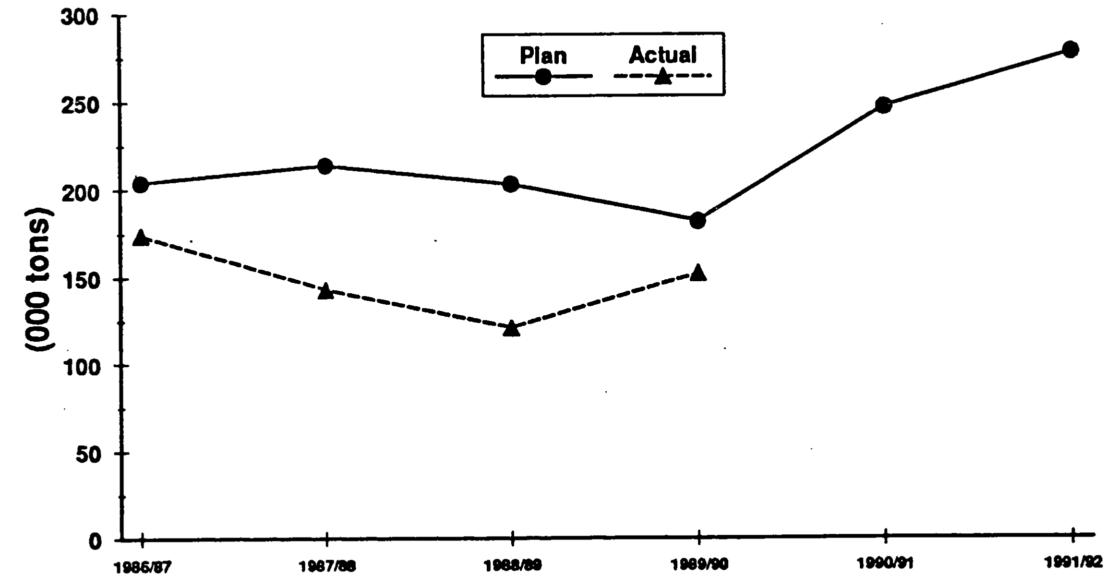
Nevertheless, the gap between the production plan and actual achievement remained very wide. Indeed, sugar production was declining as the following figure reveals.

It is evident that the rehabilitation project has so far failed to produce tangible results in sugar production. A number of, more or less, inter-related factors are responsible for this state of affairs.

Figure 11.1

Sugar Production: Plans and Actual (tons)

(1986/87 - 1991/92)



Source: Public Corporation for Sugar Trading, Khartoum.

First, the time lag between the preparation of the project in 1983, and actual implementation in 1987, rendered the original proposal largely out-dated. In the meantime, the useful life of most machines expired, and new problems emerged which were not envisaged by the project. For example, the Assalaya and Sennar plants were only four years old at the time of the proposal. Indeed, such problems, which were not incorporated in the rehabilitation project, have constrained the operations of the factories. Lack of foreign exchange to make up for these deficiencies, is undoubtedly the main reason. Second, the implementation process was erupted many times by creditors - mainly the Arab Fund to whom Sudan is heavily indebted-insisting that the government pay its arrears before any new withdrawals could be made. This situation has so far occurred twice, for a total stoppage time of 9 months. Table (11.2) below shows the actual amount disbursed from the different sources as of June, 1990. It is evident that the actual amount disbursed from the Saudi and the Arab Fund combined is less than 18 percent of the total amount contributed, while disbursement from the other sources (i.e. the IDA and Germany) is almost 60 percent of the amount allocated. Furthermore, the chairman of SPIC claimed that the Saudi approval for the recommendations of the purchasing committee usually takes a considerable time, and is often rejected for unconvincing reasons, such as "you did not advertise in foreign newpapers", or that "the number of bidders is insufficient".

Table 11.2
Actual Disbursements
as of June 1990
($m)

Source	Amount Allocated	Actual Disbursement	Ratio of Actual Disbursement
IDA	60,323	32.2	53.4
Arab Fund	59,000	12.9	21.9
Saudi Fund	38,511	4.5	11.6
Germany	22,925	17.6	76.7
Total	180,759	67.3	37.6

Source: SPIC, Khartoum.

Nevertheless, the overall ratio of actual disbursement to the amount allocated is only 37.6 percent, which is very low after three years of the project life[3]. A number of factors are responsible for this state of affairs. First and foremost, the never-ending brain-drain to the Gulf states resulted in considerable delays, regarding hiring key staff, completing the necessary legal steps, providing timely certified accounts, and the like. Second, the political and legal instability have also played a major role in disturbing the implementation process, and caused deep concerns among creditors. During the last seven years, the Sudan

[3] It was originally planned that, during the first two years, 66 percent of the amount allocated must be disbursed (SPIC, Khartoum).

experienced three types of government and innumerable cabinet reshuffles, and with every change in government, major changes in PEs management and SPIC personnel took place.

The consequences of the low disbursement, and consequently the slow progress of the implementation were detrimental. The useful life of existing assets expired, and the prices of new machines and spare parts soared. The officials interviewed also pointed out that the delay in factory rehabilitation has reduced the extraction rate by more than 10 percent and time loss of more than 40 percent. Moreover, lengthy delays in arrival and delivery of machines and spare parts, and the slow progress of rehabilitating essential activities, such as irrigation, have negatively affected agricultural operations and harvesting. Consequently, the gap between plans and actual achievements remained very wide. However, it must be stressed that, the sugar industry is an integrated agro-industrial activity for which piece by piece rehabilitation is inappropriate; not least because a deficiency in any phase would affect the entire system. Therefore, until the whole project is completed, it would be very difficult to see a significant turnaround in productivity. However, the longer the rehabilitation process takes, the more difficult it becomes to attain the production target, simply because new problems might emerge. It must be emphasised that, shortages of local currency (i.e. the government share), and the lengthy, cumbersome bureaucratic procedures to make the payments for the civil works, and transportation of machines, have also caused considerable delays.

Third, our investigation revealed that the staff morale is unduly low. The staff interviewed indicated that, almost 10 years after being converted into companies, their salaries and other benefits are still determined by the state as part of the whole civil service pay package. Moreover, the sharp deterioration in real income received by the staff, and the worsening conditions in rural areas have made life difficult for the staff, and hence accelerated the turnover rates. Also, the public image towards the sugar factories is very low, due to frequent sugar shortages in the country[4]. In effect, all these factors amounted to one thing; lower staff morale. Likewise, there is a strong belief among the staff that the rehabilitation project is only a step towards preparing the industry for privatisation. Therefore, the fears that they might be laid-off, made the staff disinterested to make the rehabilitation succeed.

Fourth, the rehabilitation project did not provide finance to meet the annual input needs of the industry. The assumption was that, as a result of improved productivity brought about by the rehabilitation project, boosted morale, and improved producer prices (see below), the factories should be able to generate sufficient resources to acquire their input needs. However, the very fact that, production stagnated or indeed declined, meant that the factories failed to generate sufficient internal resources to meet their input needs. The severe shortages of foreign exchange in the economy created even more problems for imported items. The officials estimated that about 65 percent of the operating expenses require a foreign exchange component, that is $60 per ton of sugar produced. Therefore, the timely availability of foreign exchange is critical for the ultimate success of the rehabilitation effort, and hence the achievement of the production targets. The four PEs require about $14 million each year, while Kenana alone require about $22 million[5].

Fifth, as noted earlier, sugar manufacturing is a two-way activity : sugarcane plantation and milling. Therefore, the coordination between the farm and the factory is critical for sugar production, because a deficiency in any of them would have a direct effect on the entire production cycle. At present, irrigation is the responsibility of the Ministry of

---

[4] As we pointed out earlier, the severe shortages of basic consumer goods in rural areas has pushed up prices dramatically. The authorities usually give urban areas highest priorities at the expense of rural areas, for political reasons.

[5] Although Kenana is a joint venture, it relies entirely on the state for its foreign exchange needs, because the state had acquired all its output to satisfy local demand, but failed to pay in hard currency (see chapter 8).

Irrigation, sugar research is conducted by the Agriclutural Research Centre of the Ministry of Agriculture, while the sugar factories are operated by the Ministry of Industry, without specific legislation or regulation to govern the relationship between these ministries and the sugar factories.

The rehabilitation project maintained that, the responsibility for irrigation management and operation, and the sugarcane research to be transferred to the sugar companies. However, this clause has not yet been implemented. Similarly, the rehabilitation project envisaged that the production relations at the Guneid Sugar Company to be converted from the Joint Account System to the Individual Account System. Unlike other factories, sugarcane at Guneid is produced under a tenant farming system. The tenancy relationship (approximately 24000 farmers) is similar to the Joint Account System in the Gezira scheme (chapter 10), with the inherent disadvantages of lack of incentives and cross-subsidisation. Nevertheless, as with the previous requirement, the change of production relations has not yet taken place. The SPIC chairman argued that "changes in tenancy relationship, the transfer of responsibility for irrigation management, and sugarcane research require legislation from the Council of Ministers. Until that legislation is issued, we can not do anything". However, irrigation specialists we have met claim that, even if that legislation is issued, the smooth transfer is likely to take a considerable time, possibly extending beyond the remaining life of the project.

Sixth, the liquidation of the sectoral corporation (Sugar and Distillery Corporation) has created a coordination problem, because each company is a legal, separate entity. At present the transfer of the productive resources from one company to the other requires the intervention of the Minister of Industry. In addition, absence of a central overseeing agency has encouraged the companies to modify the original rehabilitation plan, so as to cater for emerging problems, which made life difficult for the SPIC.

A major final reason for the stagnating or even declining sugar production is the lack of agricultural planning (i.e. insufficient sugarcane plantation and inadequate cane yield), coupled with the lack of preparation for cane cutting and transportation bottlenecks. As noted earlier, 90 percent of the production target was planned to be achieved from improved cane production. Indeed, as the case of the Guneid Sugar Company showed, the severe shortages of agricultural inputs, transportation of cane to the factory, and lack of cane cutters, are the main causes for the stagnant production. In the 1988/89 season, for instance, sugar cane equivalent to about 30,000 tons of sugar is reported to have remained uncrushed (SPIC). The reasons are two-fold : poor pay under the civil service rates (£s 300 per month, or £15), and insufficient planning by management to address the problem before it occurs.

11.1.4 Marketing and Pricing

As the case of the Guneid Sugar Company showed, the marketing of sugar is a government monopoly under the "Public Corporation for Sugar Trading (PCST), a department of the MFEP. The PCST is mandated to purchase local output, import additional sugar to satisfy local demand, and distribute sugar throughout the country. It acquires the entire local production at a price determined at the national level. At present, both producer and consumer prices are controlled by the state. Consumer prices have only recently (December, 1989) been set at the import parity level (albeit at the official rate), while producer prices are still far below the production costs. As a result, the Treasury generated gross revenues in an amount of £s 4250 per ton in 1989/90, while the factories continued to incur losses. The following table summarises this state of affairs.

Thus, the present pricing system is damaging to the industry, since it does not allow the factories to generate sufficient resources to maintain their assets or acquire the necessary inputs. Needless to say, the persistent use of this distorted pricing mechanism is crippling the industry, and more importantly runs counter to the very basic idea of a market economy, the critical prerequisite for the success of privatisation.

Table 11.3
Producer[6] and Consumer Prices, Production Costs and Revenues to the Treasury per ton of sugar

Season	Consumer Price (£s/Ton) (1)	Producer* Price (£s/Ton) (2)	Production Costs (£s/Ton) (3)	Treasury Surplus (£s/Ton) (1 - 2)
1988/89	2800	1900	2146	900
1989/90	6750	2500	2772	4250

(*) of this price, £s 500 is deducted for the irrigation charges, and hence is an additional revenue for the Treasury.

Source: Public Corporation for Sugar Trading, Khartoum.

The Ministry of Commerce, Cooperation and Supply annually determines the amount of sugar to be allocated to each region (table 11.4). The system of regional quotas to be distributed by PCST was originally meant to ensure that sugar is available throughout the country at the regulated price.

Table 11.4
Regional sugar quotas (1988/89)

Region	Sugar quota (Tons)	Population (M)	Consumption Per head (Kilograms)
Khartoum	128,050	2,284	56
Northern	35,460	1,221	29
Central	120,170	4,652	26
Eastern	57,130	2,629	22
Darfur	56,045	2,686	15
Kardufan	61,070	3,529	17
Southern	49,250	6,100	8
	-------	------	----
Total	507,275	24,118	21

Source: **Public Corporation for Sugar Trading, Khartoum.**
Department of Statistics, Khartoum.

---

[6] Kenana Company is offered a different selling price. For instance, the selling price for 1988/89 was £S 2944 per ton of sugar. Thus the difference from PE's selling price is £S 1044 per ton.

As can be seen from table (11.4), the quota system is largely biased towards the urban elites of Khartoum. The region of Khartoum, for example, is allocated 25 percent of the total quantity distributed for a 9 percent of total population, while the other 91 percent of the population consume the rest. That is largely because Khartoum is politically more influential, where shortages of sugar and other consumer goods normally provoke street riots by the organised labour unions. Consequently, the inadequacy of regional quotas has created an unofficial black market in the rural areas. Although with the current accounting and information systems it is difficult to trace sugar losses, the officials interviewed at the PCST indicated that much of the sugar is transferred to the black market after leaving the PCST control. As a result, the profit margin tended to shift from the legitimate producers to the illegal black marketeers who collected the scarcity premiums. Indeed, the presence of a highly profitable black market has increasingly syphoned-off supplies from the official market, thereby increasing the scarcities. In effect, the desired objective of lower prices to the consumers is lost.

11.1.5 Management, Accounting and Training

Under the rehabilitation project, a sum of $32 million was allocated for the supporting services of management, accounting and training. Initially, it was envisaged that the companies would be operated by foreign experts under a management contract. However, due to resistance from the bureaucrats and labour unions, that idea was soon abandoned and replaced by the so-called "advisers", with no powers to take decisions. Consequently, management selection, remunerations and sanctions continued to be a government business, as part of the whole civil service.

In 1987, three international consulting firms were contracted to advise on the replacement of the existing accounting systems (government accounting systems) with commercial accounting systems, capable of providing reliable and timely information for the management of commercial companies. In January, 1990, the effectiveness of the new systems was thoroughly reviewed by the SPIC, and discussed in detail with the project's co-financiers. The conclusion was that, the new accounting systems have not been of much success in providing reliable information to management as anticipated, basically due to implementation deficiencies. Consequently, it was decided to extend the contract until mid-1991 to enable the consultants to modify the systems. Moreover, the consultants were placed in line position rather than purely advisory position to enable them to take decisions. However, it is still the case that the companies will not be able to recruit and retain competent staff to operate the modified systems, given the present government pay scale.

The progress of the training component, under a contract to the United Nations Industrial Development Organisation (UNIDO), has also been very slow and ineffective. Indeed, we understood that at one stage the authorities even considered the termination of the contract. The report for the planning phase was already over four months late by August, 1990, when the data for this research was completed. However some technical training courses were arranged by SPIC, but no such training took place for the managerial staff.

11.1.6 Control

The rehabilitation project envisaged that, "The Sudan Sugar Board" (SSB) would be created under the Ministry of Industry, to perform the following tasks. (1) Monitor and evaluate the performance of the sugar companies. (2) Conduct market research. (3) Review the staffing position of PEs and carry out training programmes. (4) Monitor technical development in sugar industry, and advise the government. (5) Act as a buffer between PEs and the various government units involved (SPIC, Khartoum).

However, our investigation revealed that, the SSB never came into existence, and in the meantime a new structure emerged to perform the above tasks, and this was the "Sudan Sugar Council" (SSC). The officials interviewed indicated that, the SSC would not be a holding company as had the "Sugar and Distillery Corporation", but would rather perform functions beyond the capacity of PEs to perform independently, such as planning, procurement, pricing and training. The primary difference between SSB and SSC is that, the latter would include Kenana Sugar Company. Advocates argued that the involvement of Kenana is essential for the following reasons. First, without Kenana most of the principles of the SSC's operations would either be invalidated or made difficult to sustain. Second, Kenana can be regarded as a "locomotive" that helps to pull the other PEs along the road to optimum operational efficiency. Third, Kenana itself can secure significant economies of management, and/or imporvements in operational procedures through its involvement in the various functions proposed for the SSC. Finally, advocates suggested that the precise role of the SSC should be left for the industry (public and private) to decide. The industries should finance and control the SSC through a Board of Directors to be drawn from the senior management of the companies.

Nevertheless, although a sugar council with the foregoing functions might seem desirable and sound, its effectiveness would depend on the degree of autonomy granted to PEs. As we argued earlier, although PEs were converted into "private" limited companies, they continued to operate under a multitude of rules and regulations that used to govern the public corporations (e.g. the Public Corporation Act, 1976; and the Financial Regulations Act, 1977). Moreover, their exact legal status is not at all clear (i.e. are they legal autonomous entities, or just productive units to be attached to a central agency ?) Second, the Kenana Sugar Company might also be reluctant to participate effectively on the council, on the grounds that it would allow the government bureaucracy to creep in. Therefore, given this state of affairs, it is highly unlikely that, a council with the foregoing functions would be made operational. Indeed, given the previous experience with similar central overseeing agencies, such as the Supreme Authority for Public Corporation proposed in 1971; and the Supreme Council for Public Corporations proposed in 1976, it could be argued that the proposed sugar council or sugar board may never come into existence. Nevertheless, there are a number of reasonable ideas floating around.

From the above discussion, therefore, it could be concluded that, so far the progress of the implementation of the rehabilitation project has been disappointing, and very slow. As a result, sugar production did not improve, and the gap between the plans and actual achievement remained very wide. Indeed, sugar production has been declining, and there is no reason to suggest that during the remaining life of the project (only two years), a dramatic turnaround in production would take place. As a matter of fact, there is ample evidence to suggest that the pace for the implementation could be slowed down, if not being brought to a halt. The project was financed mainly by Gulf states (54 percent), whom the Government of Sudan opposed in the recent Gulf crisis. In fact, even the rest of cost (45 percent), was financed by Germany and the World Bank who also took an opposite stance from that of the Sudan regarding the Gulf war. Therefore, they might suspend or withdraw funds at least for the time being, which would affect not only the sugar rehabilitation project, but also other rehabilitation efforts for the textile and agricultural sectors.

Second, the ultimate objectives of the rehabilitation project have never been spelt out in any official document, creating a sense of confusion. It is not at all clear whether the project is a first step towards privatisation, or a means to improve efficiency. However, if it was meant to be a step towards privatisation, then this is largely inconsistent with the experience in most DCs (e.g. Brazil and the Philippines) where rehabilitation prior to privatisation has been opposed on the grounds that the costs incurred might not be recovered **(Vuylsteke, 1988).** In addition, it might pose serious political concerns regarding the sale of a PE after it had been turned around by massive use of public funds. It is true that the decision to sell loss-making PEs in their present financial condition might be difficult. However, given the financial difficulties facing the Sudanese authorities, rehabilitation prior to sale is simply unrealistic. On the other hand, if the objective was to enhance efficiency, the authorities have done virtually nothing to that effect. It is certainly true that the rehabilitation project would replace the out-dated plants. But, as we saw earlier, the operating criteria are still deficient in a number of respects, and no measures were initiated to foster competition, the single most important factor to improving efficiency.

11.2 The PE and Economic Management Project

From those early sectoral reform efforts, we now turn to discuss the most recent, overall PE reform project. As we saw earlier, by mid-1980s, the poor performance of PEs was causing real concerns to the Sudanese authorities and international aid donors, notably the World Bank. Indeed, the authorities have been exploring ways of revitalising the sector, and have approached the World Bank for that purpose. In response, the World Bank commissioned two studies in 1985/86, to identify the critical areas that need support, at a cost of $0.5 million, financed by the IDA (table 11.5). Following these empirical investigations, the Government of Sudan submitted a formal request for a "technical assistance credit" in September,1986. The loan was approved in May, 1987, and subsequently a four-year reform project was adopted (1987/88 - 1991/92).

The project was composed of three main components : (1) PE reform, (2) improvement of national planning and economic management, and (3) development of human resources.

Project cost

The following table shows the breakdown of the project costs and the sources of finance.

Table 11.5
Project Costs
($m)

	Local	Foreign	Total
Long Term Experts	-	1.152	1.152
Short Term Consultants	0.664	3.000	3.644
Formal Training	0.591	1.850	2.441
Equipment / Vehicles	0.293	0.486	0.799
Operating Costs	1.950	-	1.950
Contingencies, Prices	0.979	0.207	1.186
PPF Advance(1)	-	0.500	0.500
Total	4.457	7.192	11.652
%	38%	62%	100%
Financing ($m)			
IDA	1.805	7.192	9.000 (77%)
Government of Sudan	2.652	-	2.652 (23%)
Total	4.457	7.192	11.652

(1) Project Preparation Facility

Source : Public Corporation Department (MFEP), Khartoum.

In what follows, we will outline and discuss the PE reform component viz: objectives, costs, and implementation.

11.2.1 Objectives of PE Reform

The Director of the Public Corporation Department (MFEP), cited the following objectives of the PE reform: (1) "to substantially reduce the number of PEs", (2)"to improve the institutional setting in which the remaining PEs operate", and (3)"to eliminate or substantially reduce the government subsidies to PEs".

11.2.2 Cost of PE Reform

The amount allocated for PE reform under the project, was approximately $5 million distributed as follows :

Particular	Local ($m)	Foreign ($)	Total ($)
Long term experts	-	0.432	0.432
Short term experts	0.528	1.200	1.728
Training	0.300	1.047	1.347
Equipment / Vehicles	0.131	0.216	0.347
Operating costs	0.651	-	0.651
Contigencies	0.392	0.101	0.493
	------	------	------
Total	2.002	0.101	4.998

This amount would finance the following major activities : (1) diagnostic studies of 10 PEs selected as a pilot group, (2) establishing a comprehensive government monitoring system, (3) strengthening internal planning and management of PEs, and (4) reviewing all existing legislation governing PEs, and implementing any necessary changes.

The Director of the Public Corporation Department (MFEP) pointed out that, due to the difficulty of addressing all PEs at a time, ten PEs were selected as a pilot group, according to the following criteria:

(.) impact on the economy,

(.) market orientation,

(.) size,

(.) potential for privatisation,

The enterprises selected for the diagnostic studies were : The Rahad Agricultural Scheme, Toker Agricultural Scheme, Animal Products Corporation, Guneid Sugar Company, Karima Fruit Factory, Friendship Textile Company, Maspio Cement Company, Duty Free Shops Corporation, the Sudan Telecommunication Corporation, and the National Electricity Corporation. The basic idea of the diagnostic studies was to suggest an action plan for the government, i.e. whether to retain under public ownership, liquidate or privatise.

11.2.3 Rationalisation Fund

In a bid to alleviate the social impact of the reform project (e.g. mass redundancies), the Government of Sudan agreed to establish a "PE Rationalisation Fund". It was the intention that the Fund would provide such things as severance payments for the retrenched staff, loans for employees to acquire shares, and possibly re-training of retrenched staff (MFEP).

Management of PE Reform

The management of the PE reform component will be the responsibility of a central body called "The Central Bureau for Public Enterprises" (CBPE), to be created under the MFEP. In addition, the Director of Public Corporations stated that, the CBPE will be assigned the following tasks : (i) The management of the diagnostic studies and to recommend to the Government the appropriate course of action (i.e. retain, rehabilitate, or privatise). (ii) Monitor and evaluate the performance of PEs. (iii) Establish a sound reporting system for PEs. (iv) Design on-job training programmes. (v) Produce specific terms of reference for PE managers, board of directors, sectoral ministries and other related institutions. (vi) Collect basic data on PEs (number, financial and technical position, government equity, etc).

The other two components (Economic Management and Human Resources Management), at a cost of $6 million, will provide assistance for the reform of the macroeconomic management and the human resource development. The management of both components was to be the responsibility of a secretariat to be established by the Minister of Finance, before the end of October, 1987.

11.2.4 The Implementation Process

The project was scheduled to commence in mid-1987, with the selection of the consultant firms; establishment of the CBPE and the PE Rationalisation Fund; appointment of committee of experts to review the existing legislation/regulations regarding PEs; formation of task forces for clearing intra-Governmental accounts and the backlog in PEs accounts; preparation of terms of reference for PE managers; shareholders, sectoral ministries, and the CBPE.[7] However, our investigation revealed that, actual implementation barely started in late September, 1989, for the diagnostic studies of the ten enterprises. As regards the other main components of the project, however, no major progress was made as we shall see below.

11.2.5 The CBPE

The cornerstone for the success of the PE reform, was the creation of the Central Bureau for Public Enterprises, so as to locate the overall responsibility for the reform effort in a single central unit. However, our investigation revealed that, as other central overseeing agencies previously proposed (see chapter 9), the Bureau has not yet been established. A major reason is that, the location of the Bureau has generated a great controversy and heated debate among the government circles. The initial plan proposed by the World Bank envisaged that, the Bureau (composed of 5 full-time professionals representing sectoral ministries) would be placed under the MFEP. However, that proposal was categorically rejected by the sectoral ministries, on the grounds that it would strengthen the already pervasive influence of the MFEP. Consequently, sectoral ministries, notably the Ministry of Industry, refused to nominate their representatives.

The whole issue was subsequently discussed in a "National Economic Conference", arranged by the incoming military government, and it was recommended that, the Bureau to

[7] A detailed work plan will be provided in the appendix.

be attached to the "Revolutionary Command Council". The MFEP, currently coordinating the diagnostic studies, however, managed to lobby against the implementation of that recommendation, and hence maintained the status quo. The Undersecretary for Finance and chairman of the Bureau insisted that "these enterprises are public entities, using public resources, and hence the CBPE must be accountable to the MFEP". In the end, the Bureau never came into existence, and the invaluable and much needed tasks outlined above, remain to be carried out before embarking upon any privatisation process.

Likewise, we found that no action was taken regarding either the Economic Management or the Human Resource Development component. Indeed, even the secretariats to be responsible for the management of both components have not yet been established. We failed to investigate this state of affairs in depth, because the Minister of Finance responsible to create these secretariats was under arrest. The issue is irrelevant for the present government, because the whole project has now been relegated to lower levels on the national agenda, and instead wholesale privatisation has been proposed (see chapter 6). Indeed, the Minister in charge of privatisation when asked about the privatisation costs stated that, "If possible, we might use the remaining funds of the project".

Finally, the lack of funds to establish the PE Rationalisation Fund has undoubtedly played a significant role in delaying the implementation process. Indeed, our investigation revealed that the Rationalisation Fund envisaged under the project has not yet been established. All the officials interviewed attributed this situation to financing difficulties on the part of the Sudan Government, which is largely consistent with the experience in most DCs. As we saw in the introductory part of this these, the authorities in most DCs realised that, a policy designed to reduce the budgetary burden, actually costs a substantial amount of money in the short and medium term, which is not readily available. Indeed, these transaction costs, particularly employee benefits, have reportedly brought privatisation to a stand still in a number of DCs **(Kikeri, 1990; Cowan, 1990; Vuylsteke, 1988).**

11.2.6 Work in Progress:

The Diagnostic Studies.

In September, 1989, international consultants - BMB (Dutch), Cooper and Lybrand (British), and a Sudanese counterpart (T.T. and PISCO) - were contracted to conduct the diagnostic studies of the ten PEs selected as a pilot group. In addition, representatives from the MFEP, responsible ministries, and the enterprises to be studied were invited to participate in the diagnostic studies. The primary purpose of involving these parties was to facilitate data collection, and to maintain the cooperation of the bureaucrats and line managers. The consultants started work in October, 1989, with a finalisation of a check list for data collection, and preparation for an introductory workshop. The purpose of the workshop was to gather all those involved in the diagnostic studies so as to inform them about:

(.) the methodology,

(.) the phases of the diagnostic process per enterprise,

(.) the envisaged time schedule for the studies.

Furthermore, the consultants also used to organise a so-called "diagnostic workshops", so as to foster mutual understanding and to seek consensus on conclusions and recommendations. All the parties involved were invited to participate in these diagnostic workshops. The researcher was also invited to attend three of these workshops. Up to August, 1990, the consultants had managed to complete the diagnostic studies of the Sudan Telecommunications, Guneid Sugar Company, Karima Fruit Factory, Animal Products Corporation, and the National Electricity Corporation.

Another piece of work in progress is the classification of PEs into commercial / non-commercial, strategic / non-strategic units, so as to facilitate the action plan. A committee, composed of civil servants, proposed two definitions of a commercial enterprise. First, commercial enterprises were defined as "Those dealing in buying and selling of commodities without modifying their basic nature". Accordingly, only those PEs engaged in the trading activities qualified for the above definition, and hence classified as commercial enterprises. Examples included the Public Corporation for Sugar Trading, Sudan Cotton Company, Duty Free Shops corporation, the Petroleum Corporation, the Gezira Trading and Services Company, and Kordufan Engineering Company. All the manufacturing enterprises, however, were excluded on the grounds that they often change the nature of the commodity (i.e. they transform a certain input into another product). The second definition proposed by the committee stated that, "a commercial enterprise is the one that operates in business ventures for the purpose of generating profits". Thus, the cornerstone according to this definition was the realisation of profits, regardless of whether the enterprise had "modified" the nature of the commodity or not. In addition, the committee emphasised the importance of the continuity of the profit objective for an enterprise to qualify for the above definition. For example, a government department that sells part of its assets and realises a profit, shall not be regarded as a commercial enterprise, simply because this activity is incidental and is not part of the purpose for which it was established. Therefore, in addition to the above enterprises (those classified as commercial enterprises under the first definition), the following list of enterprises, was added: all manufacturing; agricultural and mining enterprises.

Nevertheless, while the attempts to define commercial enterprises seem to be reasonable and objective (especially the second definition), the definition of strategic enterprises posed serious problems, and came out to be vague and subjective. The committee proposed the following definition: "strategic enterprises are those operating in 'vital' sectors of the economy, and 'important' for carrying out the government socio-economic development policies". The interpretation of the terms, 'vital', 'important', however, was less informative; subjective and somewhat ambiguous. Indeed, all the committee members interviewed gave conflicting and personal interpretations for these terms. This is not surprising, however; simply because there is no clear cut, universally acceptable definition that applies to all countries at different stage of development. Indeed, much of the available evidence indicates that countries differ widely in this respect (see below).

As a result the following PEs were classified as strategic : the National Electricity Corporation, the National Water Authority, the Sudan Airways, the Sudan Railways, the Sudan Telecom, the Post and Telegraph, the Sea Ports Corporation, the Civil Aviation Authority, and all the sugar factories. It is difficult to assess the merits of this classification, as there is no conclusive evidence from experience in various parts of the world. In Malaysia, for example, both the Sea Ports (Port Kelang) and the telecom industries have been privatised **(Leeds, 1990; Vuylsteke,1988).** In Japan, the telecom, the rail, and postal services have been sold, and in the UK, the telecom, electricity, water and airlines have been privatised. On the other hand, a large number of countries have opposed the privatisation of such industries. Examples from industrial countries include Italy and Germany, and from DCs include Brazil, Senegal, Morocco, and Turkey **(Kapstein, 1988; Kikeri,1990; Leeds, 1988).** Indeed, even in the UK, the privatisation of public utilities has been heavily criticised by both politicians and academicians **(Rees, 1986; Heald, 1990; Harris,1988; Vickers and Yarrow, 1988).**

However, the classification of the sugar industries as strategic is controversial and deserves special comment. In the Sudan, the sugar industry is a mixed sector, in which the private sector has now established itself, and has achieved a reasonable degree of success, as manifested by the experience of the Kenana sugar complex. The chairman of the committee argued that "sugar is a strategic commodity that affects every household in the country. Therefore, the state must maintain control over pricing and distribution". This line of argument, could be refuted as follows: First, all goods produced, by both public and private enterprises, are subject to price controls at the ex-factory; wholesale and retail levels. Second, all consumer goods, including sugar produced by Kenana sugar company, are distributed by the authorities (see chapter 13). Therefore, the privatisation of the sugar industry does not necessarily mean that the state would relinquish control over distribution or prices. Accordingly, the classification of the sugar industry as strategic is highly debatable.

In summary, therefore, it could be argued that, although the implementation process was considerably delayed, the PE reform project outlined above, is probably the most genuine, integrated and detailed effort ever devised to improve the internal efficiencies of PEs. First, the project emphasised careful investigation at the enterprise level as a prerequisite for an action plan, rather than advocating a certain policy (e.g. wholesale privatisation) as a quick fix for all PE's problems. Second, the project envisaged the creation of a central overseeing agency to supervise the reform process, as well as performing other valuable tasks. In addition, the project envisaged reforming the operating criteria of PEs, such as clarifying objectives; strengthening management selection, and producing terms of reference outlining the responsibilities and authorities of PE managers; boards of directors; shareholders and sectoral ministries. Third, the PE reform project was supplemented by reforms in economic management and human development.

However, as with previous pieces of reform, the project runs the risks of excessive government intervention in internal markets. Therefore, in the absence of substantial improvement in macro policies, the project's benefits may never materialise. Other risks include the high turnover rates in the civil service; lack of commitment by line managers and the bureaucrats towards the implementation of fundamental structural changes, and lack of political will to take the difficult decisions regarding employment and pricing. However, this state of affairs seems to be a common phenomenon in DCs. For example, **Heald (1990)** concluded that "Real commitment to public enterprise reform has been lacking in many developing countries".

Nevertheless, these factors have considerably delayed the implementation process. The most detrimental example of such delays was seen in the establishment of the CBPE, which brought the whole project to a halt, and nobody seems to care about this situation. The Public Corporation Administration of the MFEP blames the sectoral ministries and vice versa, without any constructive dialogue between them. The central government, on the other hand, seems to be over-burdened with macro issues (e.g. the civil war), which diverted its attention. But this is a rather unusual situation, because in DCs generally the most limiting constraint to implement reform is the lack of finance. In this case, however, finance was available, in fact as of June, 1990, only one third of the project funds have been disbursed.

However, there are personal and bureaucratic interests at play. For example, the project envisaged that, the CBPE would be staffed by full-time professionals. In reality, the Under-secretary for Finance appointed himself chairman for no clear reasons. Two propositions can help explain this situation: First, to emphasise the role of the MFEP on the CBPE. Second, to safeguard himself, that is in the event of his removal from his current post, he could find a ready job, which is not uncommon in the Sudan.

The project is a typical World Bank approach to PE reform, in which the government classifies its PEs (i.e. which to remain public, and which to be privatised), and then sets a timetable for implementation **(Shirley, 1989)**. But, unlike the experience elsewhere, the Sudanese project was not exposed to public scrutiny at any level, which could lead to subsequent reversal of the action plans adopted by a future government. In the end, the whole project has now been relegated to a back seat, and privatisation of a wide range of PEs has been proposed. This situation probably reinforces our earlier remarks that, in the Sudan, economic policies emerge on ad hoc basis and follow no consistent pattern.

11.3 Conclusion

During the 1980s, the poor performance of PEs, and the slow down of foreign loans, have brought the public investment policy of the 1970s to a halt. Instead, the Sudanese authorities have devised various pieces of reform to improve the performance of PEs. The outcome of these reform projects, however, has not been encouraging, simply because implementation was flawed in many respects. For example, all industrial PEs were converted into "private" limited companies , basically to allow these companies greater operational autonomy (e.g. recruitment, rewards, financing, purchasing). In reality, however, they came out to be constrained by a multitude of rules and regulations. Moreover, although the legal reform is almost 10 years old, it has not yet taken its final shape. At present, there are no clear cut criteria for organising industrial PEs as corporations or companies, which created considerable ambiguities regarding their exact legal status.

Indeed, it seems as if these reform initiatives were imposed on the authorities. This is probably quite evident from the lack of political will to create sound macro-economic environment in which enterprises can operate effectively and efficiently. For example, if we assumed that the ultimate objective of these reform efforts was to enhance PE's efficiency, then it could be argued that the authorities have done very little by way of improving efficiency. That is because, the prices of all goods produced and sold in the country are subject to government controls; personnel policies are subject to civil service rules, and more important no effort was made to foster competition through trade liberalisation; encouragement of exports or break-up of monopolies. Similarly, no effort was made to reform the operating criteria for PEs, by clarifying objectives; improving management selection, autonomy and incentives, introducing sound accounting practices or management information systems. Consequently, PEs continued to be managed by bureaucrats rather than professional business managers, never allowed to respond to competition by cutting costs (e.g. lay-offs), nor to raise prices when market conditions demand so. Indeed, the newly created companies were not even financially prepared to operate on sound commercial basis.

Not surprisingly, therefore, the legal restructuring failed to bring about significant turnaround in productivity or financial performance.

The most convincing piece of reform to date was that devised by the World Bank, "The Public Enterprise and Economic Management". However, apart from the fact that the project was not supported by wider macroeconomic reforms, the implementation process was unduly slow. Therefore, the benefits of the project never materialised.

However, as we saw in chapter 6, the present government has abandoned the idea of improving the performance of PEs. Instead, it proposed to privatise a wide range of PEs over a three-year period. But would that be possible, and if so, would the potential benefits of privatisation be realised ? These are the issues to be examined in the following chapters.

Chapter Twelve

The Business Environment

In the Sudan

"The evidence indicates that there is no shortfall of entrepreneurial spirit in Africa. The most crucial limiting factor is not entrepreneurship, but weakness in the policy environment which inhibit effective investment".

(Marsden and Belot, 1987)

"Commitment to privatisation, in any form, must be accompanied by adoption of policy environment that allows for competition and operation of market forces. Governments must be made aware that if industires are protected from market forces little will be gained from privatisation".

(United States Agency for International Development, 1986).

These statements clearly indicate that a conducive business environment is a critical prerequisite for the success of privatisation. A sound business environment is characterised by a liberal trade policy, market-based prices for goods, capital and foreign exchange, few or no constraints on entry and exit, a competitive and efficient capital and product markets, a reasonable tax structure, adequate infrastructure, low inflation rates, and a stable political, economic and legal systems. **(Galenson, 1984; Shirley, 1988; Marsden and Belot, 1987).**

The purpose of this chapter will be to outline the existing business environment within which enterprises, public and private, operate in the Sudan. For the most part, it will describe the state of the art, solely to set the scene for identifying the major constraints to successful privatisation. The implications of the existing business environment on privatisation will be the focus of the following chapter.

The elements of the business environment will be examined under the following headings : (1) Investment Codes, (2) Trade Policies, (3) Price Mechanism, (4) Labour Policies, (5) Tax Structure, (6) Interest Rates and Credit Allocation Systems, (7) Political and legal systems, and (8) Infrastructure.

12.1 Investment Codes

In its 35-year history since independence in 1956, the Sudan has devised numerous investment codes, all of which were intended to promote private investment, local and foreign. These include: The Approved Enterprise (Concessions) Act, 1956; The Promotion and Organisation of Investment Act, 1967; The Industrial Investment Act, and The Agricultural Investment Act, 1972 (amended 1974); The Encouragement of Investment Act, 1980. The present government also proposed a new Investment code, but this had not yet been approved when the data for this research was completed. Therefore, the following discussion will be based on the 1980 Act.

As in all other DCs, the successive investment codes in the Sudan provided a package of incentives to attract private investment, local and foreign. The 1980 Act provided the following incentives :

(1) exemption from business profit tax for a minimum period of five years, renewed at the discretion of the Minister of Finance,

(2) exemption from custom duties on machines and inputs,

(3) exemption from excise duties on domestic raw materials used in production, and reimbursement of excise duties on goods intended for exports,

(4) subsidised land, freight and electricity,

(5) full protection against imports,

(6) the right to transfer profits in the same currency brought to establish theentity, and the right to repatriate capital in the event of liquidation or sale,

(7) no explicit discrimination was allowed between local and foreign investment in the granting of licenses or incentives.

Despite these incentives, however, gross investment declined from 23 percent of GDP in 1975/76 to only 7 percent of GDP in 1985/86. Public investment dropped from 8.6 percent of GDP to 3.5 percent, while private investment dropped more sharply from 14.4 percent to 3.5 percent **(Bank of Sudan).** The decline in public investment was caused, in the main, by the sharp deterioration in government revenues and the slow down of foreign capital flows (see chapter 10). Moreover, the out-break of the civil war had syphoned-off the meagre internal resources available to the detriment of public investment.

The sharp decline in private investment was attributed, in part, to the previous government policies, notably the violent nationalisation and confiscation measures of the early 1970s, which created an uncertain investment climate. Other factors include the severe shortages of foreign exchange to acquire spare parts and imported inputs, inadequate infrastructure, and the tight administrative controls over prices, labour, exports and credit allocation. For example, the frequent power failures, the transportation bottlenecks and the shortages of raw materials, especially in rural areas, made those areas unattractive for private investors, despite the incentives provided. Similarly, the lack of foreign exchange inhibited foreign investors who failed to repatriate their capital gains and profits. Indeed, due to this single reason, a number of international airlines, notably Swiss Air and the British Airways, have suspended their flights to Khartoum. Moreover, the widening gap between the official exchange rate and the black market rate has induced an increasing number of investors to shift to the trading activities (e.g. imports), rather than undertaking the risky, tightly administered investment projects. Last but not least, the soaring inflation rates (currently around 100 percent), uncertainty about economic policies, instability of the political and legal systems, the civil war, and the accumulated foreign debts, have dampened private investment. However, it must be stressed that, the authorities have done virtually nothing to remedy this highly distorted investment climate before embarking on privatisation (see chapter 13).

The Investment Bureau, under the administrative supervision of the MFEP, is the regulatory agency responsible for the administration of investment (i.e. licensing and granting of incentives). The Bureau is composed of a "Secretary General", a "Technical Secretariat", and a "Consultative Committee". Moreover, a Ministerial Committee was proposed under the Act, but it never came into existence. As a result, the Minister of Finance assumed its functions to approve investment projects and grant the incentives. However, the pervasive influence of the MFEP over the Bureau, had created a sense of unrest among other ministries and indeed hindered the smooth functioning of the whole system (see below).

12.1.1 Investment Licensing

In the Sudan, all investment projects in excess of £s 0.25 million (£12500), whether incentives are being sought or not, are subject to investment licensing, and projects established without a license are fined or confiscated. The Act specified the following criteria to obtain a license: (i) defense or strategic importance, (ii) use of domestic raw materials, (iii) earn foreign exchange or import substitutes, (iv) create jobs, (v) furtherance of cooperation and integration with African and Arab countries, (vi) contribute to national income. Needless to say, any investment project would satisfy at least one of these conditions, and as such these criteria are of little operational value. Thus leaving much to the discretion of the approving authorities.

The system operates as follows :-

(a) Applications are submitted to the concerned ministry, on a three-page form containing basic information on the project, and supported by a feasibility study, taxation card, and a certificate from a commercial bank indicating the financial position of the applicant. Copies of the application are sent to the Investment Bureau.

(b) The concerned Ministry analyses the application, and submits its recommendations to the Technical Secretariat.

(c) The Technical Secretariat prepares detailed analysis, and submits its recommendations to the Consultative Committee.

(d) The Consultative Committee reviews the application and submits its recommendations to the General Secretary.

(e) The General Secretary presents the application to the Minister of Finance for final decision.

The above investment licensing procedures, though few in number of steps, they normally take a considerable time. According to the provision of the Act, the concerned ministry has one month to study the project and submit its recommendations to the Technical Secretariat, while the General Secretary was allowed two months to present the application to the Minister of Finance to take a decision. In reality, this timetable is seldom followed. The General Secretary asserted that "It is difficult to process large number of applications given the limited manpower and the degree of detailed analysis required". Moreover, as noted above, sectoral ministries are unhappy about the pervasive influence of the MFEP, and hence they deliberately absent themselves from the meetings of the Consultative Committee, leading to considerable delays.

However, the longer it takes to obtain a license, dampens private investment, especially in a context where inflation rates are rising by the day, and so are economic policies. Moreover, there is a wide room for irregularities, due to the lack of objective and transparent criteria upon which approval of projects and granting of incentives are based. More importantly, the lengthy and time-consuming procedures to obtain a license constitutes an entry barrier, and hence makes the threat of potential competition less effective. In summary, in the absence of a favourable investment climate, the costly incentives proved to be ineffective in accelerating private investment. The protection from imports promoted highly inefficient import substitutes, and investment licensing is disincentive to investment. All these factors, therefore, have hindered private investment, and are likely to erode the privatisation programme. Indeed, the Sudanese authorities have often attributed the declining trend of private investment to faulty laws, and hence devised numerous investment laws to provide more incentives. However, that proved to be irrelevant, basically due to the widespread distortions in the broader environment. More importantly, the frequent changes of investment codes have created an uncertain investment climate, and hence prevented the development of a vigorous private sector. Finally, **Acharya (1979)** found that the incentives favoured industry at the expense of agriculture, the single most important sector of the Sudanese economy.

12.2 Trade Policies

Economists argue that, sound trade policies are critical to the success of business enterprises, public and private **(Ayub and Hegstad, 1986; Shirley, 1989; Marsden and Belot, 1987)**. In what follows, we shall outline the trade policies in the Sudan under these headings: (1) exchange rate, (2) exports, and (3) imports.

12.2.1 Exchange Rate System

Between 1956 and 1978, the exchange rate in the Sudan remained constant at £s 0.35 / US $. For the most part of that period, this rate appeared to be appropriate, as there were no major balance of payment problems. However, between 1974 and 1978, the oil price shock of 1973 pushed up the production costs of agricultural exports and manufactured goods above internationally - competitive levels. As a result, the incentive to produce these goods decreased, exports stagnated, the import bill swelled, and in consequence the government came under increasing pressures to devalue the Sudanese pound.

Therefore, in June, 1978, the exchange rate was devalued by 14 percent, from £s 0.35 / US$ to £s 0.4 / US$. However, as demand for foreign exchange continued to outpace supply, a black market emerged at a rate well above the official rate, and the government had no choice but to devalue quite frequently so as capture the supply of foreign exchange through the official channels. As the matrix below reveals, the exchange rate was devalued by 14 percent in 1978; 25 percent in 1979; 80 percent in 1981; 44 percent in 1982; 92 percent in 1985, and 80 percent in 1987. Nevertheless, despite all these devaluations, the demand for foreign exchange continued to exceed supply, and hence the gap between the "official" and "black market" rates increased.[1] For example, in mid-1989, while the official exchange rate was £s 4.5 / US$, the black market rate was in the range of £s 23 / $. Following the Military Coup of 1989, possession of and trade in foreign exchange was made illegal, and a death penalty imposed.

Nevertheless, the severe shortages of foreign exchange in the official economy disrupted the regular flow of inputs and spare parts, leading to huge idle capacity. As a result, exports stagnated, defeating the very basic idea of devaluation. Moreover, the widening gap between the official and the black market rates induced an increasing number of investors to shift to trading activities, at the expense of production.

[1] There are two official rates in the Sudan: the official rate for official transactions, and the commercial rate for non-official transactions. Official transactions refer to government imports and exports, while non-official transactions refer to non-government transactions.

Matrix 12.1
Exchange Rate Movements (£S/US$)*

Date	Action
June, 1978	First devaluation of 14 percent, from £S 0.35/$ to £S 0.4/$.
September, 1979	Second devaluation of 25 percent to £S 0.5/$, and introduction of dual exchange rates. The other called the parallel rate at £S 0.8/$.
November, 1981	The official and parallel rates unified at £S 0.9/$.
November, 1982	Devaluation of 44 percent, to £S 1.3/$, and introduction of free market rate at £S 1.75/$.
October, 1984	Free market rate set at £S 2.8/$.
February, 1985	The official rate devalued by 92 percent to £S 2.5/$, and the free market rate set at £S 3.4/$.
August, 1986	The free market rate set at £S 4/$.
August 1987	The official rate devalued by 80 percent to £S 4.5/$.
October, 1988	Free market rate to be operated by commercial banks set at £S 11.3/$, and then raised to £S 12.1/$.
July, 1989	Possession and trade in foreign exchange totally prohibited and a death penalty imposed.

(*) This is a simplified matrix of the major foreign exchange movements that took place during the last 12 years or so. A full documentation will be provided in appendix 4.

Source: **Hussein, M.N., "Movement in the Foreign Exchange Rates in the Sudan", in "The Sudanese Economy in Disarray", edited by A.A.G. Ali, Khartoum University Press, (1988).**

In summary, the over-valued exchange rate had two detrimental effects: One, it inhibited the flow of foreign exchange through the official channels, and hence disrupted production. Two, it promoted the so-called "rent-seeking economy", where individuals seek access to import licenses, rather than undertaking productive investment to provide the much needed goods and services. Both of these are likely to erode the privatisation programme (see chapter 13).

12.2.2 Exports

In the Sudan, all merchandise exports are subject to licensing from the Ministry of

Commerce, Cooperation and Supply (MCCS). The prospective exporter is required to submit an export contract specifying the type and quantity of goods to be exported, means of payment, prices, and date of shipment(see the attached export form). Moreover, to ensure domestic supply, the MCCS checks whether the goods intended for exports would not create a supply gap in the local market. In that case, the application will be rejected, whether the goods were produced by the public or private enterprises.

A committee headed by the Director General of the Export Licensing Section of the MCCS sets minimum prices for exports to ensure maximum flow of foreign earnings for the Treasury. The point is that, the widening gap between the official and black market rates, provided incentives for exporters to conceal part of their foreign earnings. To avoid this practice, the committee regularly reviews international prices, and accordingly sets minimum export prices. However, the chairman of the Chamber of Commerce complained that the minimum prices set by the committee are often too high, and the committee does not consider marketing strategies, which would require low prices to enable exporters to explore new markets.

In effect, the over-valued exchange rate has acted to inhibit exports, and in fact induced exporters to avoid the unrealistic minimum prices through smuggling. The result is a sharp decline in foreign earnings, which are vital for the productive sector, public and private. This situation, however, is by no means unique to the Sudan. **The World Bank Report, 1981: "Accelerated Development in Sub-Saharan Africa",** concluded that "Trade and exchange rate systems are at the heart of failure to provide adequate incentives for production and exports in much of Africa".

12.3 Imports

Like exports, imports licensing arrangements are complex and time-consuming. Indeed, there are different procedures adopted for government imports, public and private enterprises, and for commercial imports by both public and private agencies. Nevertheless,

استمارة تصدير
FORM EX.

رقابة النقد السودانية
تصدير بضائع
SUDAN EXCHANGE CONTROL
EXPORT OF GOODS

Exct. Cont. Serial No. .... نمرة رقابة النقد المتسلسلة

Authorised Dealer Serial No. .... نمرة البنك المتسلسلة

BS/PP

NOTE : This form is to be used for application for export of goods and declaration of the receipt of payment for the same. ملحوظة : يجب استعمال هذا الطلب لتصدير بضائع وللاقرار بوصول قيمة ثمن البضائع المصدرة **WARNING :** Applicant is hereby warned that he will be liable to Prosecution if he gives false information. تحذير : اى معلومات غير صحيحة تعرض مقدم الطلب الى تقديمه للمحاكمة	Name of Applicant .... اسم مقدم الطلب (Full Name in Block Letters) Postal Address .... العنوان
1. Name and Address of the Buyer ١ – اسم وعنوان المشترى	1. ....
2. Name and Address of the Agent ٢ – اسم وعنوان الوكيل	2. ....
3. (a) Rate of Commission ٣ – (أ) مقدار العمولة (b) Method of Payment (ب) طريقة سدادها	3. (a) .... (b) ....
4. Sales Contract Number and Date ٤ – عقد البيع – نمرته وتاريخه	4. ....
5. Particular of Goods Description, Quality or Grade ٥ – (أ) تفاصيل البضائع : الصنف ، النوع او الدرجة	5. (a) ....
(b) Quantity (ب) الكمية	(b) ....
(c) Sales price per unit (State F.A.S., if F.O.B.C.&F. of C.I.F., etc.) (ج) سعر بيع الوحدة (يوضح ان كان فاس ، فوب (كوست وفريت او سيف الخ)	(c) ....
(d) Total Sales Price (د) السعر الاجمالى	(d) ....
6. F.O.B. Value of Goods in Sudanese Pounds ٦ – قيمة البضائع بتسليم ظهر السفينة (فوب) بالجنيهات السودانية	6. ....
7. Terms of Payment and Currency received or to be received in Settlement of the Export ٧ – طريقة الدفع ونوع العملة التى وصلت او ستصل سدادا لقيمة البضائع اعلاه	7. ....
8. Date of Export. ٨ – تاريخ الشحن	8. ....
9. Country of Ultimate Destination ٩ – القطر المصدر اليه	9. ....
10. Port of Despatch ١٠ – ميناء القيام	10. ....
11 Port of Delivery ١١ – ميناء الوصول	11. ....
12 Means to Transport ١٢ – وسيلة النقل	12 ....
13. Country of Origin of Goods or Produce ١٣ – منشا البضاعة (اى القطر)	13. ....

14. Documentary evidence sub...

apart from the lengthy procedures, there is no guarantee that the state would provide the foreign exchange needed for approved import licenses. Indeed, the private managers interviewed singled out the uncertainty about the availability of foreign exchange to acquire the necessary inputs, as the most limiting constraint. Before 1989, manufacturers used to acquire their foreign exchange needs from the open market, and import their input needs. The incoming military government (mid-1989) made the holding and trade in foreign exchange illegal, thus killing this costly option (see below).

In summary, the over-valued exchange rate had reduced exporter's earnings in local currency, inhibited the flow of foreign exchange (e.g. the savings of Sudanese working aborad) through the official channels, and hence crippled the productive sector, public and private. Similarly, the over-valued exchange rate has encouraged trading activities (the so-called rent-seeking economy), at the expense of production. This state of affairs, in turn, is likely to hinder the long term success of privatisation, not least because it is competition in export markets and competition against imports which encourage greater efficiency. We shall pick up these points in chapter 13, registering for the moment the fact that the trade policies in the Sudan are distorted in all respects. The Sudanese authorities rely solely on administrative controls for foreign exchange rate system, exports and imports. As a result, the use of market forces has been deemphasised, which is a real threat to the success of privatisation.

12.3 Price Controls

As the cases showed, the stringent price controls are among the most limiting constraints for business enterprises in the Sudan. According to the prevailing laws, all goods produced in the country are subject to price controls at the ex-factory, wholesale and retail levels. Indeed, there are different price determination mechanisms for imported goods, manufactured and agricultural products. In what follows, we shall outline briefly the pricing mechanism of the manufactured goods produced by both public and private enterprises.

The Industrial Costing and Pricing Unit (IPC), under the Ministry of Industry, is the responsible body to set ex-factory prices of all manufactured goods in the Sudan, while wholesale and retail prices are set by the Ministry of Commerce. Ex-factory (producer) prices are calculated on the basis of "cost-plus", where a profit margin ranging between 5 and 15 percent is added to "allowable costs". The allowable costs include: raw materials and packaging[2], salaries and wages, and overhead expenses (electricity, water, rent, insurance, interest, taxes, depreciation and maintenance costs). Requests for price adjustments are submitted to the IPC, and the claimed expenses must be documented, though the IPC has the right to conduct its own investigation. However, in most cases, prices are fixed on the basis of those permitted to identical goods produced by other firms, regardless of inter-firm differences in cost structure. If the requested adjustments are rejected or not granted in full, the producer has the right to appeal to a Ministerial Committee, who will make the final decision.

As the cases showed, price adjustments often take a considerable time to be approved. The Head of the IPC unit asserted that "The delays are often attributed to the fact that, most firms fail to provide certified financial statements. Therefore, we have to make thorough investigation to verify the cost items, and at times we visit the firms to ascertain the claimed expenses". However, we understood that, the IPC relies, to a large extent, on information provided by firms, and in a highly protected market like that of the Sudan, firms have every reason to report higher costs. Moreover, since all industrial firms are operating at very low levels of capacity, unit costs are higher, due to the fixed cost element. On the other hand, the long delays in getting price adjustments approved is detrimental to firms, especially in an inflationary environment like that of the Sudan. Moreover, depreciation charges are calculated on the basis of the historical costs, which are totally out-dated, due to the higher inflation rates and the continuous devaluations. Therefore, the under-stated depreciation

[2] Imported input costs are converted into local currency for pricing purposes at the official exchange rate.

charges reduce unit costs and hence lower prices. Finally, the concept of allowable costs has lost its appeal in view of non-availability of foreign exchange through the official channels, and non-availability of local inputs at the legal prices.

As noted earlier, before mid-1989, holders of valid import licenses, who failed to get foreign exchange through the official channels, used to acquire their foreign exchange needs from the black market at a much higher rate. Although, these black market rates were not recognised for pricing purposes, producers were able to stay in business, albeit at a loss. As the ITMD case showed, this solution was not without problems. Indeed, as firms incurred persistent losses, they either halted sales or went out of business.

As elsewhere in most DCs, the rationale for price controls are two-fold: (i) to ensure the supply of basic goods at reasonable prices afforded by the low income group, and (ii) to curb inflation. However, there is evidence that price controls have failed to achieve any of these objectives. First, the desire to protect the poor has never been achieved. At present, rural consumers acquire all their daily needs at prices well above the legal prices, simply due to lack of goods at the government - regulated prices. For example, a sample survey carried out by the World Bank in 1988 for 16 major products found that market prices are as high as 127 percent above the official prices within greater Khartoum area. Second, the desire to curb inflation has also been lost, where the current inflation rates are estimated at 100 percent. Third, the unrealistic prices have crippled the productive sector, which failed to generate sufficient resources to finance operating expenses, let alone expansion and modernisation of plants. As a result, production declined, and severe shortages emerged, causing great hardship. Indeed, the only beneficiaries of these artificial prices are the black market traders, who have earned huge profits, without paying taxes. The point is that, while price regulation is easier to enforce at the enterprise level, it is extremely difficult at the retail level. At times of shortages, which are quite frequent, consumers have no choice but to accept what the traders are asking, without notifying the helpless authorities.

12.4 Labour Policies

The Sudan has introduced a minimum legal wage rate (MLWR) in 1974, which has increased dramatically (in absolute terms) since then. The Minimum Legal Wage Act, 1974, established the MLWR at £s 16.5 per month ($47.5), which now stands at £s 300 per month ($25). However, as the cases showed, there is some evidence that private firms are not adhering to the MLWR. Moreover, there are very restrictive laws to dismiss employees, largely to protect workers (see chapter 7). Indeed, as we saw in chapter 10, the desire to protect employment has considerably eroded the reform process of the industrial PEs. The fact is that, the labour movement has historically been very militant, and all political regimes since independence have sought their support. Nevertheless, the restrictive labour laws are likely to hinder the success of privatisation in the long run. Similarly, there is no income support system in the Sudan, and since the country faces severe financial difficulties, it is unable to afford paying generous benefits for retrenched staff. Finally, the turnover rates of skilled and highly qualified staff is very high in both public and private sectors, which have had disastrous effects on enterprises.

12.5 Interest Rates and Credit Allocation Policy

With inflation rates in the range of 100 percent, and with lending and deposit rates of 30 and 20 percent respectively, negative real interest rates have prevailed. Moreover, the Bank of Sudan lend to the central government (under section 57A of the Bank of Sudan Act), at rates as low as 0.5 percent, while lending to PEs carries only 8 percent interest charge.

In fact, interest rates were legally abolished in 1984, as part of the general "Islamisation" of the Sudanese economy. Consequently, all lending has been on the basis of Islamic instruments, which rely on profit sharing. In late 1987, commercial banks were allowed to operate either on the Islamic methods, or under a "compensatory rate system", fixed by the Bank of Sudan. In reality, however, neither the compensatory rate system, nor the Islamic system was able to keep pace with inflation. As a result, commercial banks lost the incentive to provide medium and long term loans, and the general public lost the incentive to deposit their savings with the banks. Moreover, the ever rising inflation rates and the continuous devaluations led to loss of confidence in local currency, and hence accelerated demand for foreign exchange and real estates, at the expense of investment.

Thus, unlike the experience elsewhere (e.g. the UK), the Sudanese authorities have done virtually nothing to curb inflation through real high interest rates. However, this is a critical prerequisite for the development of the capital market, which is essential for the success of privatisation. Moreover, it must be stressed that, the effects of the Islamic instruments on the effectiveness of the market for corporate control is not at all clear, because the theory of "Islamic economics" is still at its infant stage.

As regards credit allocation, the Bank of Sudan administers commercial bank's lending to private enterprises and "private" limited companies. The Bank of Sudan imposed a ceiling on commercial bank's lending, and the banks who exceed their limits are fined (a 5 percent charge). Moreover, the Bank of Sudan screens commercial loans in excess of £s 300,000 (£15000), and medium and long term loans in excess of £s 100,000 (£5000). The purpose of such controls is to ensure that the limited resources available are allocated to priority uses. However, the criteria for establishing the ceiling for different commercial banks are, to a large extent, subjective and lack economic rationale. The Bank of Sudan states the following criteria: (a) The bank's resources vis a vis its loans and advances. (b) The degree with which the bank observes Bank of Sudan directives. (c) The degree of cooperation with the Bank of Sudan in solving the country's foreign exchange needs. (d) The credit demand expectations. (e) The amount of bad debts in the bank's portfolio.

Between 1986 and 1988, the total credits extended by the banking system, including the Bank of Sudan, have grown from £s 15 billion to 29 billion (Bank of Sudan). However, about 51 percent of this was extended to the central government, but we were unable to ascertain whether part of these loans were extended in turn to PEs. Nevertheless, the officials interviewed indicated that, a large part of these loans were used to finance the war expenses. Thus, it is evident that the use of market-based prices for capital, and market forces to allocate resources, have not been accorded much importance in the Sudan. Moreover, as credits have to be rationed and administratively controlled, the allocation procedures have become highly politicised, relying heavily on personal ties and political acceptance, rather than credit-worthiness. A good example of this is the case of the state bank (People's Cooperative Bank) that was made bankrupt in 1983, solely due to credits extended to private borrowers on "Presidential" instructions, which later proved to be uncollectible.

Therefore, it could be argued that, the existing negative interest rates and the subjective credit allocation policies are likely to hinder efforts to mobilise private savings, entrepreneurial activities, and the development of efficient, competitive capital markets. However, it must be stressed that, an efficient capital market is a critical prerequisite to the success of the government privatisation programme.

12.6 Tax Structure

As we saw in chapter two, one of the arguments against state intervention in the economy was that, high taxation to finance public spending had reduced incentives to invest, work, and maximise profits. Therefore, it was argued that, the tax rates should be reduced to provide incentives for entrepreneurs to invest and improve efficiency. However, the available evidence indicates that, the tax rates on business profits and personal income in most African countries are unduly high **(Marsden and Belot, 1987)**. And the Sudan is no exception.

As table 12.1 reveals, the tax rates on corporate profits in the Sudan are as high as 70 percent, compared to 30 percent in Taiwan and 18.5 percent in Hong Kong **(Marsden and Belot,1987)**. Moreover, due to the hyper inflation in the recent past, almost all enterprises have reached the upper tax bracket. Similarly, tax rates on personal income are also high, and again due to the continuous increases in salaries to keep pace with inflation, the salaries of most categories have reached the upper tax rate. These high taxation rates, however, run counter to the idea of privatisation, in the sense that they squeese business profits and personal income, and hence do not provide incentives for private investment, which is crucial for the long term success of privatisation.

12.7 Non-economic Factors

Non-economic factors refer to the degree of stability of political, legal and economic systems, the level of education and the sophistication of accounting systems. These factors, though difficult to quantify, are critical to the success of privatisation, not least because they would have serious repercussions on business enterprises.

During the last decade, the Sudan has experienced political and legal instability. In April, 1985, a long serving military government was overthrown, and an elected government assumed power in 1986, following a one-year transitional government.

Although the military regime stayed 16 years in power, its earlier economic policies, notably nationalisation and confiscation measures in the early 1970s, have had a detrimental impact on private investment. Moreover, that regime introduced a set of restrictive laws that regulated prices, credit allocation and foreign exchange rate, imports and exports. And in a bid to contain the growing political unrest, that regime introduced in 1983 strict Islamic codes, and in the same year a civil war broke out. Following the overthrow of that regime, an elected "coalition government" came into office in 1986. However, the very fact that it was a coalition government made it vulnerable to frequent changes and cabinet reshuffles. Thus, the struggle to hold the fragile coalition together, preoccupation with the war, and the question of the legal system (i.e. whether or not to abolish the Islamic codes imposed by the previous regime) diverted the attention away from the economy.

Table 12.1
Summary of the tax Rates

(1) the financial sector	
Tax Base (£S)	**Rate (%)**
0 - 5,000	25
5001 - 25,000	35
25,001 - 100,000	45
100,001 - 1000,000	50
1000,001 - 2000,000	60
2000,001 - 4000,000	65
above 4000,000	70
(2) Non-financial sector	
Tax Base (£S)	**Rate (%)**
0 - 1,500	exempted
1,501 - 2,000	10
2,001 - 3,000	15
3,001 - 6,000	20
6,001 - 12,000	25
12,001 - 24,000	35
24,001 - 40,000	45
40,000 - 200,000	50
above 200,000	60
(3) Personal Income Tax Rates	
Tax Base (£S)	**Rate (%)**
0 - 3,000	exempted
3,001 - 4,000	5
4,001 - 6,000	10
6,001 - 8,000	15
8,001 - 12,000	20
12,001 - 14,000	30
14,001 - 18,000	40
18,001 - 22,000	50
above 22,000	60

Source: **Taxation Department, Khartoum.**

Indeed, the main issues that dominated the public debate during this period (1985 and 1989) were the questions of the legal system and the war. However, the war is unlikely to come to an end unless the Islamic codes were abolished, which is categorically rejected by the Muslim Fundamentalists. Indeed, by the time a negotiated peaceful settlement was about to be concluded, the Muslim Fundamentalists arranged a military coup and seized power in mid-1989.

The incoming military government then reinforced the stringent price controls with the declared intentions to crack down black market activities. Indeed, three Sudanese were sentenced to death in the early days of the "revolution" for merely possessing foreign exchange. These controls, however, only compounded the problem and proved to be counterproductive, where goods soon disappeared, causing great hardship, while foreign exchange dealers transferred their activities abroad (see chapter 13). The government commitment to privatisation, however, is beyond any doubt. It is led by Muslim fundamentalists who strongly support private ownership. In Islam, they claim, there is no public ownership, this is socialism and runs counter to the teachings of Islam. But, the government is opposed by all other political parties, sided with Iraq in the Gulf Crisis, and hence lost the support of the rich Gulf states. In addition to this isolation, it is faced with severe economic difficulties, and has lost the support of the international financial community after the Sudan was declared "non-cooperative" by the IMF in July, 1990.

The level of education is very low (around 70 percent of the population are illiterate), there are no accounting standards, or a body to govern the profession. There is severe shortages of qualified accountants and managers, and indeed even the limited number available have travelled abroad.

12.8 Infrastructure

As it stands at present, the Sudan's infrastructure is inadequate by any standards. Frequent power failures are facts of every day life, and have been a major constraint to capacity utilisation for all business enterprises. Many private enterprises were forced to instal their own generator sets, but even this costly alternative did not work, due to the frequent fuel shortages. The transportation bottlenecks greatly limit the size of the domestic market. There are only 12500 miles of roads (of which only 1500 miles are paved), and 1800 miles of rail connecting a land area of one million square miles. As a result, firms are unable to reach consumers outside their regions, and the difficulties of delivering imported inputs from the Port do not help enterprises, public and private, to function efficiently. Inadequate communication services is another constraint in the Sudan. As the STPC case showed, telephone services are very poor within Khartoum area, while intercity calls virtually do not exist. There are no accounting standards, and qualified accountants and managers are in short supply.

Therefore, it could be concluded that, the business environment in the Sudan is distorted in a number of respects. First, all investment projects must be approved by the authorities, based on subjective criteria, which creates an entry barrier to the detriment of potential competition. Second, protection against imports competition and the complex procedures for exports, run counter to the efficiency criteria, because of reduced competition. Third, the exchange rate is over-valued, and foreign exchange allocation is being administered by a committee of bankers, based on no objective and transparent criteria. Indeed, as the cases showed, the uncertainty about timely availability of inputs and spare parts has stunted both public and private enterprises. Fourth, there are stringent price controls on all goods produced in the country or imported, though the state is unable to enforce price controls at the retail levels, due to the scarcity of goods. Indeed, the severe shortages of consumer goods has fuelled black market activities, resulting in massive profits for traders, at the expense of consumers and producers. Fifth, there are restrictive labour laws, and the brain-drain is a real constraint for doing business. Sixth, the inflation and taxation rates are high by international standards, the capital market is underdeveloped, and the private sector is dominated by small family businesses, who raise capital through borrowing rather than issuing shares. Seventh, the infrastructure base (i.e. roads, power supply, and communication services) is totally inadequate and unreliable, posing a real constraint to the development of competitive and efficient enterprises. Last, but not least, the political, economic and legal systems are far from stable, creating an inconducive investment climate.

In the following chapter, we shall discuss the implications of the existing business environment on the Sudanese privatisation programme, and its likely benefits.

Chapter Thirteen

Privatisation Constraints, Mechanism and Benefits in the Sudan

The purpose of this chapter will be to assess the relevance of privatisation to the Sudan, its major constraints, and the appropriate privatisation techniques. It will consist of three main sections. In the first section, we shall analyse the major privatisation constraints along the lines of the "Contingent privatisation model" developed in chapter 5. In the second section, we shall assess the likely benefits of privatisation in the Sudan. The third section will be devoted to the likely privatisation techniques.

13.1 Privatisation Constraints

The major obstacles to privatisation in the Sudan will be examined along the "contingent privatisation model", in which we proposed that the success of the policy will be contingent on the following variables:

(1) The business environment,
(2) The level of development of the capital market,
(3) The socio-political factors,
(4) The financial performance of privatisation candidates,
(5) The government capacity to formulate and implement privatisation.

13.1.1 The Business Environment

> *"The broad economic and legal environment for doing business in a given country is critical to the success, and sometimes the feasibility, of privatisation (just as it is a determinant of the level and success of private investment in general)".*
>
> **(Vuylsteke, 1988)**

As we pointed out in chapter 12, the existing business environment in the Sudan is distorted in so many respects. The cumbersome, time-consuming investment licensing procedures act to inhibit investment, and create entry barriers to the detriment of potential competition. The protectionist policies adopted to protect both public and private enterprises from international competition, provide a shelter for inefficient enterprises. Moreover, the protected local markets are likely to be more profitable than international markets, and hence discourage local firms to seek export markets. However, as we pointed out in chapter 3, it is competition - actual or potential, local or foreign, that determines performance, rather than the ownership pattern. Similarly, the procedures to lay-off excess staff are expensive and time-consuming, and the bankruptcy procedures are complex. Therefore, the desire to protect employment, through restrictive labour laws, has created an exit barrier. Clearly, these entry and exit barriers would hinder the success of privatisation in the long run. The point is that, in the absence of an effective competition policy and liberal labour policies, the potential benefits are unlikely to be realised.

Second, the inappropriate trade policies (i.e over-valued exchange rate, the cumbersome imports and exports procedures) run counter to the very basic idea of a market economy - a prerequisite for privatisation. For example, the over-valued exchange rate (figure 13.1), coupled with the price control mechanism have hampered production, exports, and led to scarcities. Also, the over-valued exchange rate inhibited the flow of foreign capital, including the savings of the Sudanese working abroad (see below). However, in the absence of a well-developed capital market in the Sudan, these foreign resources are critical, not only to acquire the privatisation candidates, but also to provide the foreign exchange necessary for their subsequent operations. As the cases showed, the most limiting constraint to capacity utilisation is the lack of imported inputs and spare parts caused by lack of foreign exchange. In addition, the severe shortages of foreign exchange have considerably complicated the repatriation of earnings and capital gains, and hence is distinctive to foreign investment.

The setting of minimum prices for exports, and the cumbersome procedures have discouraged exports. As a result, exports stagnated, and the country's foreign earnings reduced, which hampered production. In December, 1988, the previous government announced that it will abolish export licensing and the setting of minimum exports prices. However, until it was ousted in mid-1989, no action was taken in this regard. Similarly, the present government proposed that it will liberalise exports, and allow exporters to retain 40 percent of their foreign exchange earnings (see chapter 6). We have no idea whether they honoured this promise. But, given the government attitudes, which tend towards tight controls over foreign exchange, and the severe shortages of foreign exchange in the economy, there is no reason to suggest that they will implement that decision.

However, it must be stressed that, trade policy reform is unlikely to be effective if the existing price controls remained untouched. As we argued earlier, the rigid price controls have crippled both public and private enterprises and reduced incentives to invest and produce. As a consequence, scarcities developed causing hardship. Therefore, it could be argued that, the success of the Sudanese privatisation programme depends entirely on creating a sound business environment, which relies on market forces, rather than administrative controls. In an environment where private enterprises are unable to operate freely in a competitive environment, the potential benefits of privatisation are unlikely to be realised.

Indeed, it is these inappropriate trade policies and the unrealistic pricing mechanisms that eroded the earlier PE reform efforts. However, allowing the market forces to operate effectively could, in the short term at least, pose serious socio-political problems, such as rising prices and unemployment. These side effects, in turn, are likely to entail heavy political costs, which the fragile political system in the Sudan may not be able to tolerate. Indeed, experience shows that these socio-political factors have forced a large number of governments in DCs to proceed very slowly on the privatisation front **(Leeds, 1988, Kapstein, 1988; Callaghy and Wilson, 1988, Vuylsteke, 1988).**

Third, the high tax rates on business profits and personal income reduced incentives to invest and maximise profits. Generally, local investors evade taxes through massive participation in black market activities, and manipulation of accounts. Indeed, in the absence of any accounting standards and a body to govern the profession, manipulation of accounts is probably the easiest and safest way to evade taxes. However, foreign investors, accustomed to international reporting standards, might find it difficult to cope with the higher taxes, and hence hesitate to come in. A related hurdle is the frequency of changes of the tax codes. Indeed, during the last decade, the tax rates in the Sudan were revised three times. As **Marsden and Belot (1987)** argue "legislative insecurity, largely due to institutional changes, come second on the list of constraints for German businessmen". Other factors cited by **Marsden and Belot (1987)** and are relevant to the Sudan are the widespread "corruption", and the "slow and arbitrary decision making". Although the first is difficult to prove, the sharp deterioration of real income received by civil servants, leaves no room to suggest otherwise. As to the second, striking examples are the investment licensing and price adjustments, which could be delayed in the Sudan for more than a year. Indeed, such delays have recently been more acute as the country lost its most competent staff to competitors abroad.

Fourth, as we have already noted, the infrastructure base in the Sudan is in complete disarray, and constitutes a real constraint for doing business. In addition, the frequent fuel shortages have rendered other solutions to the power problems (e.g generators) largely ineffective. Therefore, it might have been more appropriate to build modern roads, electricity generating companies and telephone services than granting the costly incentives specified in the investment code of 1980.

Finally, the instability of political, economic and legal systems, and the tight administrative controls prevailing in the economy, have considerably reduced business confidence, and indeed provided a strong motive for capital flight. As pointed out earlier, the present government had reinforced stringent price controls and prohibited trade and possession of foreign exchange. As a result, investors liquidated their firms and travelled abroad to start a new business. The system works as follows: a businessman who wants to repatriate his capital will leave his wealth with an agent (normally a relative), and travel abroad. There, he agrees with the Sudanese working abroad to acquire a certain amount of hard currency at the prevailing market rates. Then, he notifies his agent to pay the seller's relatives the agreed amount. Upon receipt of confirmation from Khartoum, the sellers release the foreign exchange. Thus, the lack of business confidence not only inhibited the flow of foreign exchange, but also accelerated the flight of local investors.

It is thus evident that, the business environment in the Sudan is highly distorted, and hence constitutes a real constraint to private investment and private sector development. In fact, the World Bank classified the Sudan among the 14 African countries with "a high policy and institutional distortions" **(Gulhati, 1987)**. Moreover, it is evident that, the Sudanese authorities have treated privatisation as an end in itself, rather than part of an integrated approach designed to move to a market economy. However, it seems that this attitude is common among policy makers in DCs. For example, **Heald (1990)** found that "it is astonishingly difficult to persuade the relevant policy-makers and politicians to discuss privatisation within the context of an integrated policy framework". Nevertheless, the available evidence indicates that, the sequencing of privatisation and macro-economic reform is critical for the success of privatisation (**Kay and Thompson, 1986, Hemming and Mansoor, 1988; Shirley, 1988**). Privatisation is not an end in itself, but a means to improve enterprise efficiency. Therefore, before embarking on any privatisation measures, the Sudanese authorities would need to create a competitive environment, move towards market-based prices for goods, capital and foreign exchange, eliminate entry and exit barriers, reform the tax codes, improve the infrastructure base, and above all boost investors confidence. The point is that, it is more important to create a sound business environment, than it is to transfer ownership.

13.1.2 The Capital Market

A primary objective of the financial system in any country is to mobilise public savings for investment purposes. However, there is ample evidence to suggest that the Sudanese banking systems have failed to attract either domestic savings, or the savings of the Sudanese Nationals Working Abroad (SNWA).

The inability to mobilise domestic savings is attributed to the negative interest rates prevailing in the economy. As noted in chapter 12, during the last decade, the government policy over interest rates has been ustable, and at times confusing. For example, while interest charges were abolished in 1984, a so-called "compensatory rate system" was introduced in 1987 to supplement the Islamic system. However, as we pointed out in chapter 12, neither the compensatory system nor the Islamic system was able to keep pace with inflation[1]. As a result, both deposits, and medium and short term tending became unrewarding. Thus, the negative interest rates are the main constraints to the development of efficient capital market, which is critical to the success of privatisation.

[1]under the compensatory rate system, interest on loans and deposits were supposed to be adjusted periodically to reflect changes in inflation. However, we found that no new rates were introduced since they were fixed in November, 1897.

Greene and Villanueva (1990) stated two contradicting views about the effects of real interest rates on private investment. On the one hand, real interest rates would raise the cost of capital to the detriment of private investment. Indeed, high interest rates might even lead to a recession. On the other hand, the under-developed capital markets in DCs and the poor credit worthiness, imply that DCs have no alternative but to rely on domestic savings. Therefore, it is essential that real interest rates be introduced to mobilise public savings for privatisation purposes. Nevertheless, the prevalence of the negative interest rates is a clear indication that, the Sudanse authorities have done nothing to control inflation, a prerequisite for enhancing the business confidence.

Apart from the negative interest rates, we found that the increasing government deficits have absorbed more than 50 percent of the limited credit available. For example, in 1988/89 the extra-budgetary expenses to finance the government deficits, mainly the war expenses, were 13 percent of total government expenditure, and 2.9 percent of GDP (MFEP). More importantly, this deficit financing contributed to a large monetary expansion, which accelerated inflation. In turn, higher inflation contributed to adverse effects on private investment.

Remittances From Abroad

The Sudan has a significant number of citizens working in the Gulf states, and hence their remittances constitute a potential source for the much needed foreign exchange. According to the official records of the "Secretariat for the Sudanese Nationals Working Abroad" there are around 350,000 registered migrants, though other sources estimate a figure as high as 1.6 million migrants (**Galal el Din, 1985; Choucri, 1885**)[2]. Although, existing

[2] There are two venues to get a job abroad: (1) through the official channels, where a foreign employer approaches the authorities asking permission for a certain category (e.g teachers) to work for him for a certain period. (2) An individual in his own way (e.g. a relative or an advert on newspapers), obtains a job, signs a personal contract, and leaves. The first category are the only migrants recognised by the Secretariat, whereas no records are available on the second category.

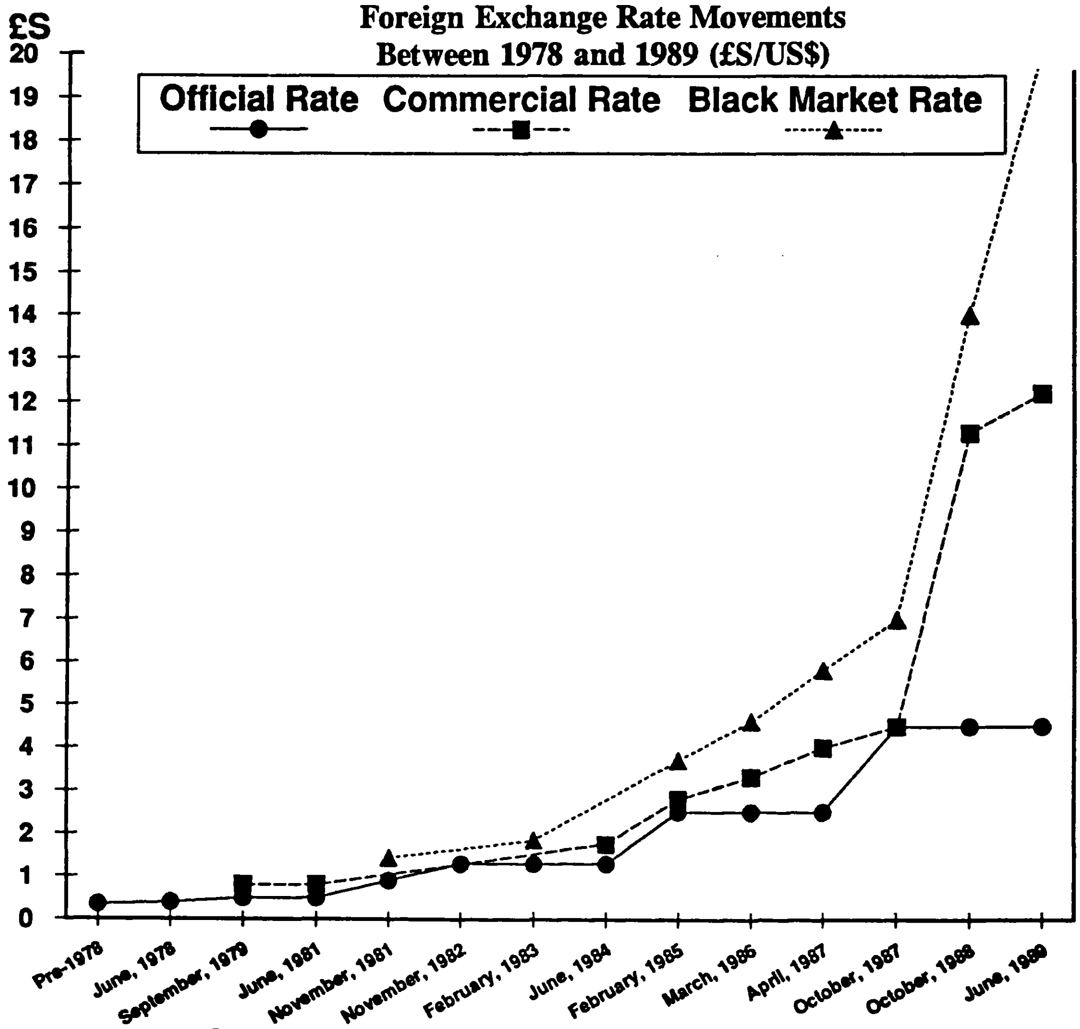
information on the earnings of the SNWA is sketchy and inadequate, the Secretariat estimates that average annual earnings to be around $17,000, excluding other allowances, such as free health care, transportation and possibly free accommodation. Moreover, most migrants leave their families behind, either for education purposes or because the host country does not accept families. As a result, **Galal el Din (1985)** estimated that, the migrants on average spend about 40 percent of their earnings, implying that 60 percent of their earnings could be remitted.

Thus, using this information on the officially registered migrants, **Galal el Din (1985)** estimated an annual remittance potential of $3.6 billion, which is five times the value of exports, and two and a half times the value of imports for 1988/89. In reality, the actual remittances through the official channels for 1987, 1988, and 1989, were $250 million, $445 million and $249 million respectively (Bank of Sudan). Thus, the actual remittance for the three years were less than 28 percent of a one year potential remittances.

In a bid to encourage remittances through the official channels, the authorities introduced a set of incentives, such as licences to import cars. However, these incentives proved to be largely ineffective, because the black market rate has by far exceeded the official exchange rate (Graph 13.1). A related constraint to the inflow of remittances through the official channels is the lack of banking systems in rural areas. Therefore, it is more convenient for the migrants to deliver their earnings personally or through a friend. In addition, most of the less educated migrants are reluctant to deal with banks, either because they are unfamiliar with the procedures involved, or because they do not trust the banking systems **(Galal el Din, 1985)**. Moreover, the instability of political and economic systems have deterred the flow of remittances. As a result, an increasing number of migrants prefer to invest their savings abroad. For these reasons, therefore, the flow of remittances through the official channels has always been a fraction of the remittance potential, a phenomenon related to the over-valued exchange rate and the distorted business environment.

Nevertheless, it is evident that the problem in the Sudan is not the lack of capital, but rather the lack of a sound business environment.

Graph 13.1
Foreign Exchange Rate Movements
Between 1978 and 1989 (£S/US$)



Similarly, the flow of foreign investment is unlikely to be forthcoming for a number of reasons. First, the country's external debt arrears are quite substantial, which have significantly reduced the Sudan's credit worthiness. By the end of 1989, the arrears were around \$8.4 billion, representing around two-thirds of the country's foreign debts (estimated at \$13.5 billion). As we saw earlier, due to these accumulated arrears, the IMF has declared the Sudan "non-cooperative", and hence not eligible for the use of the IMF resources. More importantly, it is the IMF who recommends the extension of credits to DCs. Likewise, the World Bank officials indicated that, apart from financial aid on humanitarian grounds, the Bank is not providing any loans for the Sudan at the moment. Second, the over-valued exchange rate, the distorted business environment, and the instability of political, legal, and economic systems are likely to deter foreign investors. Third, the fact that the Sudan had sided with Iraq in the recent Gulf war would undoubtedly inhibit the flow of Arab capital.

In summary, the internal capital market is under-developed, and the flow of foreign capital, including the savings of the Sudanese working abroad, is minimal. Therefore, the government proposals to privatise a large number of PEs in three years, is simply unrealistic. Indeed, even in industrial countries with highly efficient capital markets, such as the UK and Japan, there were suspicions about the ability of the capital market to absorb the flotation of large PEs. Thus, in the UK, only 50.2 percent of British Telecom shares were initially sold, while in Japan the authorities decided to sell the shares of Nippon Telephone and Telegraph in 5 tranches **(Vickers and Yarrow, 1989)**.

13.1.3 Socio-political Factors

Experience shows that socio-political factors have been a major constraint to privatisation in a large number of DCs (see chapter 6). In what follows, we shall outline briefly the political system in the Sudan since independence, primarily to assess its likely impact on privatisation.

In the Sudan, political instability was the norm in the post-independence period. Indeed, only two years after independence, a military coup took place. In 1964, a civilan rule returned to power, and remained until mid 1969, though numerous reshuffles took place in the interim. In 1969, a military rule came to power, and remained until 1985, though it started pro-communist and ended pro-muslim fundamentalists. In 1986, a civilian rule came to power following a one year transitional government. Although the Prime Minister remained in office until mid-1989, his coalition government was subject to frequent changes and reshuffles. Moreover, preoccupation with the civil war that broke out in 1983, and the effects of the drought of the mid-1980s, the government had little time to devote to the declining economy. Although a few measures were announced, such as rationalisation of prices and privatisation of some loss-making PEs, implementation was too slow, due to massive street riots and strikes. It was under these conditions of weak, indecisive government that the Sudan's transition to a military rule took place in mid-1989. The present government, led by Muslim Fundamentalists, is ideologically committed to the principles of private ownership, which is necessary for the success of privatisation. In addition, the fact that it is a military rule imposing capital punishment, without a fair trial, on industrial strikes, enabled it to eliminate political and trade unions opposition to privatisation. As a result, the decision to embark on privatisation as a major policy option, did not pose any serious problems. However, a number of reservations must be made in this respect.

First, political commitment to privatisation is an insufficient condition for its success. In Turkey, for example, the government is ideologically committed to privatisation, and yet implementation lagged far behind plans **(Leeds, 1988; Aricanli and Rodrick, 1990)**. Second, its continuity and ability to put an end to the civil war are highly doubtful. It is led by fundamentalists who planned to implement strict Islamic codes, which is one cause of the current civil war. It is opposed by all other political parties, who have formed a broad coalition to overthrow it. Thus, as before, preoccupation with its own survival and the civil war are likely to erode its plans to implement radical economic policies. The point is that, in the absence of political stability and wider public support, the government ability to force change through is highly debatable.

Nevertheless, the implications for privatisation are numerous. First, political instability is likely to deter the flow of foreign capital, which is essential for the success of privatisation. As noted earlier, foreign capital is not only needed to acquire PEs, but also to provide the foreign exchange needed to acquire inputs and spare parts. In fact, the Sudan, like many other African countries, is not that attractive for foreign investors **(Marsden and Belot, 1987)**. Second, under such a suppressive regime, where there is no freedom of speech, the implementation process is widely open for irregularities, such as sales to political loyalists at low prices, or extension of generous concessions. Third, the fact that the policy has not been exposed to public scrutiny would undoubtedly affect its credibility and continuity if the present regime is ousted. Indeed, fears of a future reversal of the policy could deter investors, local or foreign. The fact that political and labour opposition was eliminated, does not in any way mean that they were in full agreement with the policy. Moreover, experience shows that the heavy reliance on the bureaucrats could lead to considerable implementation delays, especially if they are not committed to the policy **(Heald,1990; Cowan,1990).** Fourth, in order to contain the growing black market activities, the authorities have resorted to stringent price controls and prohibited possession of foreign exchange outside the banking systems. As we saw earlier, these administrative controls proved to be counterproductive, where scarcities developed, local investors travelled abroad, and the business confidence further eroded. Finally, the privatisation of the agricultural schemes is likely to raise serious political and technical problems. In each of these schemes proposed for privatisation there are some 50,000 families relying on them for their living. Therefore, privatisation could expose these families to exploitation by the new owners, or at least criticised on this ground. On the other hand, regulation is likely to pose serious technical problems for the authorities. We shall pick up these problems under the technical constraints (see below).

In summary, in the post-independence era, political instability was the norm. Indeed, the only period that witnessed some sort of political stability was the previous military regime era (1969 - 1985). However, taking into consideration that the regime started Marxist and ended up Muslim Fanatics, explains how unsettled the regime was. For this reason alone, foreign investors, including the Sudanese working abroad, are unlikely to take an active part in the privatisation programme. Indeed, even the limited number of local investors could be considerably reduced, if political opponents refused to take part.

13.1.4 Financial Performance

As we saw in the introductory part of this thesis, the success of privatisation will depend, among other factors, on the profitability of the privatisation candidate. Profitable PEs are likely to attract investors, while unviable, loss making PEs might not. On the other hand, financial restructuring prior to sale could be expensive, given the financial difficulties now facing the Sudanese authorities. In addition, the justification of privatisation might be extremely difficult once the enterprise has been turned around at massive costs.

As table 13.1 reveals, almost all PEs selected for privatisation in the Sudan have been the choric loss-making PEs. This approach is largely inconsistent with the experience elsewhere, where the first privatisation candidates were, in the main, the profitable and well-managed PEs (see chapter 3). Indeed, as noted in chapter 6, failure to privatise the two sweet factories was cited by a number of Sudanese officials as evidence that the current privatisation programme is bound to failure.

However, it must be stressed that, PEs in the Sudan are incurring persistent losses because they operate in a highly distorted economic environment, which hinder private enterprises too. Indeed, **Marsden and Belot (1987)** argue that "Private firms in the Sudan are in desperate state, due to high cost levels, lack of credit, and disruption in the supply of imported inputs". Therefore, given the existing business environment, there is no reason to suggest that denationalisation alone would automatically improve performance.

The Sudanese authorities proposed to privatise a large number of PEs over just a three-year period, including preparation for privatisation. The officials interviewed, citing the British example, confidently argued that they can carry out the plan within the specified timetable (1990-93). However, apart from the fact that the UK is a developed country, its privatisation programme has evolved over a ten-year period, under a stable government with sufficient majority in the Parliament.

Table (13.1)
Financial Position of Some
Privatisation Candidates (£S m)

Year[1]	Corporation	Estimated Capital	Accumulated Losses
	(a) Agriculture		
1985/86	Blue Nile	15	25
1983/84	Northern	33	70.1
1976/77	Nuba Mountains	1.8	1.2
1978/79	Toker	1.1	4.0
1985/86	White Nile	21	63.3
	(b) Industry		
1985/86	Babanuosa Diary Products	0.14	2.567
1985/86	Onion Dehydration Plant	1:06	5.554
1985/86	Sweet Factories[2]	0.18	6.823
1984/85	Textile Mills[3]	55.2	29.8
1981/82	White Nile Tannery	2.61	1.376

(1) indicates the year in which the enterprise was last audited.
(2) these are Rea and Kirikab sweet factories.
(3) these are: Shendi, El Douim, Kadogli, Nyala and the friendship textile mills.

Source: **Auditor General Report, 1987.**

As **Heald (1990)** argues "It has been within such a political context that the necessary legislative programme, administrative arrangements and financial mechanisms have been affected". In the Sudan, however, the capital market is too thin, technical expertise in severe shortages, and the political system is unstable. Moreover, the authorities have committed themselves to this over-ambitious privatisation programme without adequate preparations. For example, almost all PEs selected for privatisation do not have adequate accounting records, and have not been audited for years. Indeed, there is no central government unit with accurate number of PEs, size of staff, government equity or financial position. Therefore, a considerable amount of work is needed to collect these basic data, which might extend beyond the three-year period. However, it seems that the authorities are keen to privatise as urgently as possible. For example, the authorities started forming committees to prepare for privatisation, after the privatisation plan was announced. Indeed, the privatisation plan was announced in May, 1990, while the budget for 1990/91 contained a sales proceeds of £s 500 million, which indicates the haste with which the government intends to finalise this complicated transaction. Nevertheless, as noted in chapter 4, hurried privatisations are likely to do more harm than good. As **Shirley (1988)** argues "The success of privatisation should be judged not in terms of the sale or the contract itself, or the price paid...Rather, the test is whether there are net benefits to the economy as a whole".

13.1.5 Technical Constraints

Experience shows that, planning and implementing privatisation is a complex matter that requires a variety of skills (merchant banks, auditors and lawyers), rarely found in most DCs. And the Sudan is no exception. The technical expertise required to implement this new complicated policy are in short supply. In fact, the authorities have resorted solely to civil servants who have no experience in the privatisation phenomenon. Moreover, most of the highly qualified, experienced civil servants have either left the country or have been dismissed, under "The Dismissal in the Pursuit of Public Interest Act, 1981". Under this Act, a civil servant could be dismissed on purely political reasons by the concerned Minister. Indeed, **Ozanne (1991)** notes that "all independent institutions have been emasculated, and the civil service purged of non-Islamic zealots".

Moreover, a number of high ranking civil servants we have spoken to, were reluctant to take part. For some, the reasons are pragmatic, they do not want to make their colleaques redundant, while others are politically motivated. In addition, the legal framework for the various actors (e.g. the MFEP, the sectoral ministries, the privatisation committee, the Minister for Cabinet Affairs) is not yet clear, which would allow confusion, overlap and conflict to develop. These factors, therefore, are likely to undermine the government capacity to implement a viable privatisation programme using its indigenous human resources. On the other hand, the use of foreign advisers to formulate and implement privatisation has been de-emphasised (see chapter 6). It is true that the wider the involvement of the Sudanese would broaden the public support for the policy, but they have no experience. Indeed, even the Minister in charge - a university lecturer at the Faculty of Engineering - has grand ideas, but not a clear vision of the mechanical steps needed. It is a trial and error exercise.

However, this is not to suggest that the use of foreign advisers is always desirable. It is true that foreign experts would provide the necessary skills to formulate and implement privatisation. However, as **Vuylsteke (1988)** points out, they are often unaccustomed to local conditions upon which privatisation techniques must be adapted, and would only be concerned with ownership transfer. Moreover, **Heald (1990)** argues that "if the objective of privatisation is greater efficiency, such an approach brings serious pitfalls, because merchant banks are singularly unconcerned with competition, trade policy or foreign ownership". Nevertheless, the difficult technical problems involved, such as valuation, preparing PEs for privatisation, identification of buyers, and concluding the sales transaction, are likely to pose serious problems in the sudan.

Another constraint in the Sudan is the lack of funds to finance the sales expenses associated with privatisation, such as employee benefits, financial restructuring and the administrative expenses. It is true that these transaction costs are once and for all, but the problem is the lack of finance. As we saw in chapter 11, failure to establish the rationalisation fund envisaged under the Public Enterprise and Economic Management Project, was partly responsible for the implementation delays. Another example is the case of the two small candy factories, where the highest bid received did not even cover the privatisation costs. More importantly, for a government very anxious to minimise the social impact of privatisation, and in a context where there is no income support scheme, employment issues are likely to constitute a major constraint. As we saw in chapter 10, the major political impediments to PE reform were the consumer and employment protection policies adopted by the successive governments. Indeed, the socio-political costs of staff retrenchment have forced the previous government to pay the salaries of an ailing private concern (see chapter 6). On the other hand, if the authorities decided to leave the entire work force intact, or forced potential buyers to retain the whole work force, as in Banama, Bangladesh and Malaysia **(Cowan, 1990)**, the sales price would be considerably reduced, and more important defeats the efficiency claims of the policy. In short, the employment issues have been the single most limiting constraint to privatisation in DCs, and the Sudan is no exception.

Another technical constraint is regulation. At present, almost all PEs selected for privatisation operate in mixed sectors alongside private concerns. Therefore, in the normal circumstances, competition among domestic firms, and possibly from imports, might be sufficient to ensure that prices are at competitive levels. However, such normal circumstances virtually do not exist in the Sudan. The internal market is too small, the government intervention in the internal market is too excessive, and international competition is not allowed. Indeed, the government slogan is "eat what we produce, and wear what we manufacture". Moreover, the level of sophistication of financial reporting is very low, there are no reporting standards or a body to govern the profession. Therefore, the flow of accounting data is irregular, the legal system is not yet settled, and hence regulation is likely to be a protracted business. Indeed, there are very few private firms with a sound, up-to-date set of accounts prepared on consistent basis, which reduces very much the quantity and quality of information.

A final technical problem relates to the privatisation of the five agricultural schemes. As noted earlier, there are some 250,000 people relying on these schemes, which raises the question of their welfare following privatisation. There are concerns that the new owners might exploit these farmers, and hence these enterprises must be regulated, with all the problems of regulation noted above. Moreover, in one of these schemes, the Northern Agricultural Corporation, the land is owned by the residents, while the state owns the pump station. Therefore, a question arises as to what will happen if the landlords refused to cooperate with the new owners.

In summary, the Sudanese capital market is underdeveloped, and the soaring inflation rates rendered the prevailing interest rates negative in real terms, which made deposits and long term lending unrewarding. The growing government deficits, caused by poor government revenues and the increasing war expenses, have absorbed more than 50 percent of the limited credit available. The Bank of Sudan imposed a ceiling on commercial bank's lending to private enterprises, and approves credits in excess of £s 300,000, based on subjective criteria. The business environment is characterised by tight administrative controls, over-valued exchange rate, inadequate infrastructure, highly protected enterprises, severe shortages of foreign exchange, and weak business confidence. The legal framework within which private enterprises operate is by no means clear, and the political system unstable. The financial performance of the privatisation candidates is rather weak, and turning them around depends entirely on the availability of finance, particularly foreign exchange, and the business environment in general. The government capacity to plan, manage and execute a viable privatisation plan has been seriously undermined by the growing brain drain, and the disarray in the civil service caused by the worsening local conditions and the sharp decline in real income. Although there was no significant political opposition to privatisation, may be due to fear rather than acceptance through constructive dialogue.

For all these reasons, therefore, it could be concluded that the scope of privatisation in the Sudan is likely to be limited. Indeed, assuming that the Sudanese authorities managed to privatise part of their PEs, the potential gains of privatisation, namely efficiency and fiscal impact, are likely to be insignificant (see below).

13.2 The Privatisation Benefits

13.2.1 Efficiency Benefits

As we saw earlier, one of the main arguments often made in favour of privatisation is that, it would enhance efficiency. However, research established that efficiency is determined by the market structure, rather than the ownership structure (see chapter 3). Therefore, there is no economic objection to privatise PEs operating in competitive markets. As matter of fact, almost all PEs selected for privatisation in the Sudan operate in a mixed sector. Moreover, the duality of objectives (economic and social) could be reduced to the single objective of profit maximisation, and the number of government agencies able to influence the operations of PEs could be reduced to a small number of owners. It is also true that the salaries of private managers are much higher than their public counterparts (see chapter 7). However, a few caveats are in order.

First, the same factors that contributed to the unsatisfactory performance of PEs equally inhibit private enterprises. These would include the severe shortages of foreign exchange, unrealistic prices and the inadequate infrastructure. Moreover, both public and private enterprises are protected against imports competition, and the domestic market is too small, which limits competition, the key determinant of efficiency. Second, the proposition that privatised PEs would be exposed to the disciplines of the capital market is irrelevant in the case of the Sudan, due to the current status of the Sudanese capital market. In fact, there is no one single private enterprise that raises capital by selling shares, but rather through debt financing, which is often extended on the basis of political or personal ties. In addition, the state controls credit and foreign exchange allocation based on subjective criteria. Third, the claims that privatisation would reduce or eliminate political interference in the operations of privatised entities is also debatable. In the Sudan, government intervention in the internal market is unduly excessive, and hence, directly or indirectly, it could influence the operations of private firms. First, the state grants investment licensing, sets the selling prices, approves exports and imports, and allocates foreign exchange. Second, at times of shortages, management has no autonomy in marketing the goods, instead they are transferred to the authorities to be distributed according to a rationing system. Third, the state directly influences the minimum wage rate, and at times imposes certain payments on private employers for political reasons. For example, in mid-1990, on the first anniversary of the "revolution", the government granted a one-month salary for all the employees in the country, public and private. Fourth, the state could also influence the hiring and firing staff, under the political umbrella of the so-called "public interest". As we saw earlier, in the Sudan, there is a law that empowers sectoral ministers to dismiss any civil servant for pure political reasons. Thus, the state could threaten private employers not to recruit political opponents or to dismiss those already employed. However, the procedures to dismiss incompetent and surplus staff are cumbersome, expensive, and time-consuming.

In summary, political interference in the Sudan is not confined to PEs, private enterprises are equally subject to a web of administrative controls. Indeed, if the financing, pricing, and employment decisions are taken away from enterprises, then eventually managerial autonomy is lost. For these reasons, therefore, it is difficult to suggest that denationalisation alone would enhance economic efficiency.

13.2.2 The Fiscal Benefits

The single most often cited objective by all the officials interviewed is the fiscal impact of privatisation. For example, the Minister of Industry stated that "Industrial PEs have been selected for privatisation because they are becoming a burden on the budget. Moreover, they are in desperate need for finance, which the government does not have". Similarly, the officials of the MFEP indicated that, the government transfers to PEs in 1988/89 represented about 19 percent of GDP, in return for only 4.3 percent of total government revenues, or 0.4 percent of GDP. Thus, the budgetary burden of PEs is quite evident, but must be qualified.

First, a close investigation revealed that a large portion of the government transfers were made for the large public utilities, the Rail, Telecom and the Agricultural schemes, which were not selected for privatisation[3]. Indeed, the officials of the MFEP indicated that only the Rail, Telecom, and the River Transport Corporations are entitled for subsidies, while PEs organised as public corporations borrow from the central bank. However, PEs organised as "private" limited companies, and which form the bulk of privatisation candidates, are neither entitled to receive subsidies, nor have access to the soft central bank credits. They raise capital from the banking systems, and hence their privatisation is unlikely to have any significant impact on the budget. Indeed, of all PEs selected for privatisation, only the agricultural schemes are entitled for the cheap central bank financing, though their privatisation is likely to raise serious political and technical problems (see 13.1.5). A second qualification is that the deficits generated by PEs are largely attributed to their social obligations and the government policies, such as pricing (see chapter 3). Third, in the Sudan, there is no single private enterprise that raises capital by issuing shares, but rather by borrowing from the banking systems. Therefore, the pressure on the capital market would increase rather than diminish. Fourth, the claims that privatisation would generate significant sales proceeds are debateable in the Sudan. (i) Almost all PEs selected for sale are in desperate state, and could only be sold at a fraction of their book values. (ii) As the cases showed, the pervasive over-staffing and the huge accumulated debts are likely to greatly reduce the sales proceeds. (iii) The distorted business environment, the political instability, the rush to privatise as quickly as possible, and the limited liquidity available might force the government to sharply reduce sales price, and/or extend considerable concessions to induce buyers.

Finally, the claims that buyers would pay a higher price in anticipation of future profits, is also questionable in the case of the Sudan. In a context where there are tight

[3] As of December, 1988, the claims on PEs were as follows: Gezira Scheme, £s 690 million; other agricultural schemes, Ls 638 million; Sudan Rail, £s 146 million; Cotton Public Corporation, £s 1,239 million, and the claims of commercial banks on the private limited companies were £s 996.5 million (Bank of Sudan).

administrative controls over all operating decisions, there is no reason to suggest that privatisation by itself would lead to greater profitability. The same factors that contributed to the poor performance of PEs (shortages of inputs, inadequate infrastructure and unrealistic prices) are likely to hinder private enterprises. In turn, the claims that higher profitability would lead to higher tax revenues is simply irrelevant. Indeed, even if there is some improvement in profitability, tax revenues are unlikely to increase, because the collection of taxes in the Sudan is inefficient. The reasons are two-fold: there are no reliable data upon which to base taxes, and the tax administration is very weak. Therefore, tax evasion through manipulation of accounts or collusion with taxation officers is likely to reduce tax revenues. As **Heller and Schiller (1989)** argue "where tax evasion is common, and the government is unable to ascertain the true profit situation, the government may be net loser from privatisation by virtue of lower sales price and lower subsequent tax receipts. Where the purchaser is a foreign company, tax evasion may also imply a leakage of profits outside the domestic economy".

In short, the pressure on the Treasury would be reduced if, and only if, large public utilities were privatised. Similarly, there is no assurance that sales proceeds would be significant, due to sales to political favourites, extension of costly concessions, and the weak government bargaining capacity. Therefore, it could be concluded that the Sudanese privatisation programme is unlikely to generate significant fiscal gains.

13.3 Privatisation Techniques

As we saw in chapter 2, the choice of an appropriate privatisation mechanism depends on the status of the equity market, the financial position of the privatisation candidate, and the government objectives. In the sudan, however, the capital market is underdeveloped, the number of business investors is small, there are no standardised accounting systems, the level of education is very poor and the performance of the privatisation candidates is very poor. Therefore, a public offering of shares is unlikely to be a major privatisation technique. As we saw in chapter 6, for a variety of reasons, the use of debt/ equity swaps are unlikely to be a feasible alternative. Similarly, management/employee buy-out is not a feasible privatisation mechanism, because there is no history of share ownership in the Sudan, the confidence in the financial system is low, and the method is faced by serious financing problems. Moreover, **Vuylsteke (1988)** points out that it requires a competent management and a constant staff, which is difficult to satisfy in the Sudan given the current high turnover rates.

Finally, privatisation through management contracts and leasing is also unlikely to be a major privatisation mechanism. First, experience shows that, it is often difficult to conclude and enforce a satisfactory contract for both leasing and management contracts **(World Development Report, 1988)**. Second, given the current economic difficulties, the Sudanese authorities might be in a very weak bargaining position to conclude a viable leasing contract. Thus, as in Togo, generous concessions might be granted, which run counter to the very basic idea of the policy. Third, the distorted business environment would frustrate any genuine efforts to improve performance through leasing or management contracts.

Therefore, private sales to local and foreign investors are likely to be the main privatisation techniques. However, private sales are neither desirable nor easy to conclude. First, the method is widely open to irregularities or criticism since there were no predetermined privatisation rules developed to govern the implementation process. Indeed, there are reasons to suggest that the government would favour the Islamic financial institutions owned by the Muslim Fundamentalists. As **Ozanne (1991)** argues "The government has recklessly put the profit of a small cartel of Islamic banks and political objectives of a cartel of extremists before the welfare of millions of Sudanese citizens". In such cases, therefore, private sales are likely to lead to massive concentration of wealth in a narrow segment of the population, with all its political consequences. Second, in a context where the number of investors is limited, the capital market underdeveloped, the business environment inconducive and the political system unstable, it might be difficult to find buyers with sufficient financial resources and managerial expertise to acquire all these PEs in such a short period of time. For these reasons, foreign investors might not be willing to take an active role in the privatisation programme. Indeed, in their quest to oust the existing regime, political opponents might instruct their supporters not to participate, thus limiting the number of prospective buyers.

13.4 Conclusion

In the Sudan, privatisation has been treated as an end in itself, rather than a means to improve economic efficiency. The Sudanese authorities have done virtually nothing to foster competition or introduce realistic prices for goods, capital and foreign exchange, which are essential prerequisites for a market economy. In the absence of radical measures to stimulate a free market economy, however, privatisation is unlikely to generate significant and lasting economic benefits. Indeed, there is ample evidence to suggest that PEs are likely to dominate the Sudanese economy for a considerable time to come. Apart from the various constraints outlined above, the country is currently facing a civil war, partly due to so-called "unbalanced regional development". As a result, if the civil war ever come to an end, the central government would be forced to make substantial public investment in those rural areas. The other alternative, i.e private investment, is simply not feasible, due to the various political, economic, and legal constraints cited earlier. Moreover, the impediments to private investment are likely to be of a long term nature, simply because the question of ethnic/religious minorities has never been resolved in any national setting. Therefore, the conclusion is that, the scope of privatisation in the Sudan is likely to be limited, and its benefits uncertain. As a result, improving the performance of PEs under the current ownership structure is inevitable. A theoretical approach to this effect would be developed in the following chapter.

Part Four

Concluding Remarks

Chapter Fourteen

Conclusions and Implications

14.1 Conclusion

In sharp contrast to the philosophy of public ownership that dominated the post-war period, the privatisation of publicly-owned enterprises is currently a topical issue on the development agenda worldwide. It was argued that, the massive public investments of the post-war period and central planning have failed to accelerate economic growth, and hence the time for change has come. Indeed, an increasing number of governments, in both developed and developing countries, regardless of their ideological convictions have declared their intentions to retreat from the economic activities, and to rely more heavily on private ownership and free markets. And the Sudan is no exception.

The current interest in the privatisation policy is attributed, in the main, to the political developments that took place during the last decade (the rise of the right in the West and the downfall of socialism in the East), and the growing dissatisfaction with the performance of PEs. In addition, governments in DCs were exposed to increasing external pressures to shift to a market economy, on the grounds that free markets are more efficient in allocating resources than central planning, and that private initiatives are the best way to accelerate economic growth. Privatisation, it was claimed, would eliminate the budgetary burden of PEs, improve economic efficiency, lead to the development of efficient capital markets, and widen "real" public ownership (often referred to as popular capitalism).

However, the highly political nature of the policy initially made the privatisation policy an extremely divisive concept between ideological supporters and opponents (**Rees, 1986**). As for DCs, the very fact that, the policy has been advocated by "outsiders", was quite sufficient to generate considerable resentment, even among those sympathetic with this unproven policy. As **Bienen and Waterbury (1989)** argue "There is a general perception in the LDCs that the packages are imposed by the creditors with little sensitivity to local conditions and constraints".

Through time, however, the socialism doctrinaire that dominated the post-war period, and the one that emphasised public ownership, became less a constraint to privatisation. The political developments that took place in the "Eastern Bloc" were taken as an indicator of the failure of a centrally-planned economy to accelerate economic growth, and hence paved the way for change. As **Heald (1990)** argues "The political climate has changed remarkably. Rather than international agencies pressing privatisation upon unwilling governments, they may now have to caution against the infeasible and inappropriate". More importantly, policy makers in most DCs have realised that PEs have failed to achieve their objectives, as the drain on the Treasury increased, and the import substitutes never materialised. Therefore, privatisation has been contemplated in a bid to contain the budgetary burden of PEs, and to improve economic efficiency. Two claims were made in this respect. First, it was claimed that privatisation would eliminate the deficits generated by PEs, because the privatised industries would no longer be financed by the Treasury. As we saw in chapter 3, however, research has failed to establish a clear cut case for this proposition. The other main proposition has been that, private firms are more efficient than their public counterparts. As with the previous proposition, such claims should be treated with great caution, simply because no conclusive evidence exists.

Apart from the lack of firm evidence to support these economic propositions, experience shows that governments in DCs have found it increasingly difficult to implement privatisation. A critical prerequisite for the implementation and success of the policy is the presence of a strong political commitment to the principles of privatisation, armed with a clear vision of the preparatory work that need to carried out before embarking on privatisation. In the absence of political will and wider public support for the policy, the difficult economic, technical and socio-political constraints could hamper implementation. In particular, measures to stimulate a free market economy (e.g price rationalisation, trade liberalisation and labour shedding), could entail heavy socio-political costs, leading to considerable delays, if not abandonment of the policy. As **Commander and Killick (1988)** argue "It is common for PEs to be used as a means of subsidising consumers. The substitution of market-determined prices for the previously subsidised prices will create a group of unambiguous losers".

Advocates claim that there is no firm evidence to show that PEs have achieved their distributional objectives. For example, **Van De Walle (1989)** argues that "PEs often reflect an urban bias and inadequately serve rural population, where there may be larger pockets of poverty". As the Sudanese experience showed, price controls intended the help the poor ended up helping urban elites, while consumers in rural areas are actually paying a price much higher than the legal price. Indeed, **Commander and Killick (1988)** conceded that "These (the losers) may or may not be made up of poverty groups, for state subsidies are a notoriously inefficient way of alleviating poverty. Subsidies tend to have a strong urban bias...".

Nevertheless, the argument that wholesale privatisation would have a detrimental impact on the poor, and would deter the state from perusing its socio-economic objectives need to be taken seriously, due to their political consequences. Apart from the violent price rise that would follow the move towards a market economy - a prerequisite for the long term success of privatisation - there are likely to be mass redundancies prior to privatisation. This is serious, because unlike the situation in industrial countries, job prospects in other sectors of the economy are likely to be bleak, and most DCs do not have the income support systems of industrial countries. Moreover, there are other interest groups (e.g the military and the bureaucrats) who have vested interests to maintain the status quo regardless of their political convictions. These groups are often well-organised, militant, and well-aware of the fact that they stand to lose by the advent of privatisation, while the potential gainers are scattered, and not sure that they will gain, simply because the potential benefits of privatisation are uncertain. Therefore, the well-organised, politically influential interest groups could influence the scope and pace for privatisation before the potential gainers are organised to support it (**Bienen and Waterbury, 1989**). In short, the socio-political consequences of the policy have deterred even committed leaders to implement large-scale privatisations. A good example is Turkey, where the process of transferring public assets to private ownership has faced a difficult path, though the government is ideologically committed to the policy (**Leeds, 1988**).

Another critical constraint in many DCs is the lack of financial resources and managerial expertise to respond to privatisation. In most DCs, the low levels of income, the poor resource mobilisation capacity, the over-valued exchange rates, the weak investor confidence in the financial systems, and the unstable political and legal systems, have led to serious financing constraints and deterred foreign investors (**Kikeri, 1990; Hemming and Mansoor, 1988**). In addition, the government- imposed restrictions on certain local groups (e.g ethnic/religious groups) have further limited the available options (**Callaghy and Wilson, 1988**). Indeed, the main argument in favour of PEs were the widespread market failures, and nothing has changed in the interim. The market is still underdeveloped, how to operate a free market economy poses a real problem, and the private sector is dominated by traders rather than business investors. The fact is that, the reality of the market in most DCs is entirely different from the image of the market portrayed by the enthusiastic supporters of free markets. As **Ghai (1985)** argues,"Its (the World Bank) use of the market as a touchstone not only belittles the social and political purposes of public enterprises, but also demonstrates a misunderstanding of the historical reality and operations of the market in Africa". Another impediment to privatisation in DCs is the lack of technical expertise to implement this new and complicated policy. As noted in chapter 6, privatisation requires a variety of technical skills and administrative capacity to help in formulating and executing a viable privatisation programme, which are often not available, and the use of foreign experts has been met with a hostile attitude.

Apart from these constraints, we found that the business environment in the Sudan is distorted in so many respects, and the authorities have done virtually nothing to create a supportive environment for doing business. The present government declared its intentions to shift to a market economy, but still relies on administrative controls. In addition, trade liberalisation was firmly rejected, the prevailing interest rates are negative in real terms, the exchange rate is under-valued, there are no standardised accounting systems, and the task of dismantling the bureaucracy remains. The country is currently facing a civil war, and one of its main reasons is the so-called "unbalanced development". Consequently, it is not at all clear what would happen if the civil war ever come to an end, i.e would the government undertake public investment projects, or would regional development be left to private initiatives?. In either case, substantial public investment to build a modern infrastructure base appears to be inevitable. Finally, there is a considerable disagreement about the whole legal system, that is whether to return to the conventional laws that were prevailing since independence, or to adopt the Islamic codes. At present, the Islamic laws have been adopted, though their implications on business enterprises is not yet clear, because the whole experience is still at its infant stage. The instability of the legal system, in turn, would undoubtedly hamper entrepreneurial activities in the economy.

In view if this state of affairs, therefore, the main conclusion is that, the scope of privatisation in the Sudan appears to be limited, which is consistent with the experience elsewhere. Indeed, assuming that the Sudanese authorities managed to privatise part of their PEs, the potential benefits are likely to be limited. The point is that, due to the lack of the necessary conditions for the success of privatisation, there is no reason to suggest that a change of ownership would enhance economic efficiency. Privatisation is not an end in itself, and can not be carried out in isolation of the broader political, economic and legal environment. Successful privatisation requires a gamut of policies, not least of which is a conducive business environment. This would include liberal trade policies, flexible prices, and labour policies, few constraints on entry and exit, adequate infrastructure, reasonable and fair taxes, lower inflation rates, stable political and legal systems, and realistic interest and exchange rates. The paradox is that, these wider reforms are bound to entail heavy socio-political costs, but without these sweeping and painful reforms there is no reason to suggest that the benefits of privatisation, namely economic efficiency, would be realised.

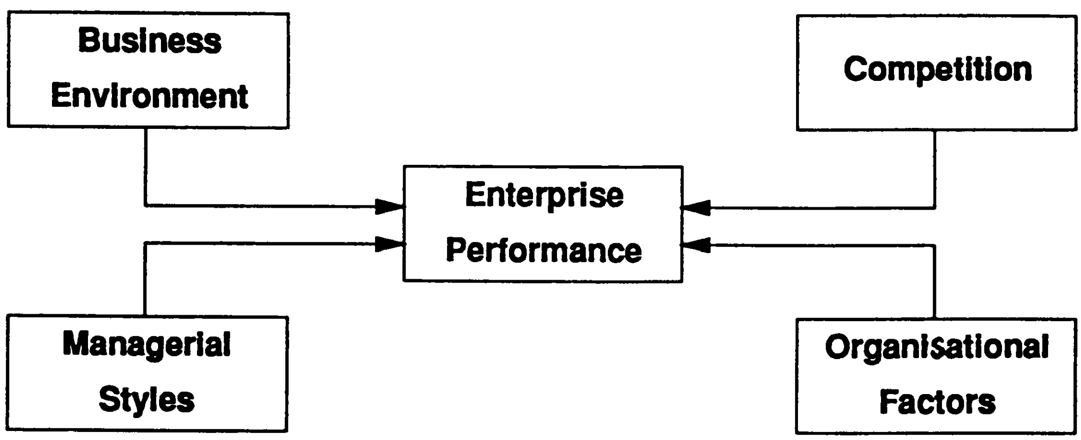
14.2 The Need for Alternatives

Like the situation in most DCs, the Sudanese experience shows that, privatisation has been on the political agenda for a considerable time, but no major progress was made. Moreover, as the experience elsewhere, the potential benefits of the policy are uncertain, and the large-scale privatisations of industrial countries appear to be irrelevant. Therefore, the conclusion is that, the political, economic, and technical constraints to privatisation, suggest that the policy of streamlining the PE sector is a relatively long term process, and requires the support of a range of policies. Indeed, the available evidence indicates that, a large number of PEs are likely to remain under public ownership for a considerable time to come in DCs (**Nellis, 1986; Kirkpatrick, 1988**). If this were so, then what should policy makers in DCs do to improve the performance of their PEs in the interim. In what follows, we shall outline a theoretical model to this effect.

14.3 Performance-Improving Model

As we pointed out in the introductory part of this thesis, the poor performance of PEs is by no means universal. Worldwide, there are sufficient examples of well-managed, highly profitable PEs, such as IRI in Italy, CVRD in Brazil, Hindustan Machine Tools in India, the Tea Development Authority in Kenya, the Telecommunication Authority in Ethiopia, and Electricity Supply company in Tanzania **(Shirley, 1983; Ayub and Hegstead, 1986; Nellis, 1986)**. Such evidence clearly indicates that performance could be improved under the present ownership structure, and hence we should direct our attention to the performance determinant factors, i.e what makes these enterprises profitable, though they are publicly-owned?. A second justification of this line of thinking is the lack of a conclusive evidence to support the view that ownership is the sole determinant of performance. Worldwide, there are sufficient stories of private business failures, indeed one reason for the expansion of PEs were the rescue operations mounted by governments for private firms that failed in the market place. The point is that, the mainstream literature suggests that it is the market structure within which a firm operates, rather than ownership structure that determines performance. However, a change of ownership in itself will neither foster competition, nor lead to market-based prices **(Van De Walle, 1989)**. Third, in the vast majority of cases, PEs have been turned around in a relatively short period prior to privatisation. In the UK, for example, **Yarrow (1986)** found that the biggest jump in profitability occurred in the run up to privatisation. Fourth, in a number of cases where serious attempts have been made to clarify objectives, strengthen management selection and rewards, as in Pakistan and South Korea, performance has significantly improved **(Hartmann and Nawab, 1985; Park, 1987)**. Similarly, New Zealand's "Corporatisation" policy (i.e to operate PEs on strictly commercial basis), has reportedly produced a significant turn around in performance **(Jones, 1991)**. Similar approaches were adopted in Canada, Japan, Malaysia, Sri Lanka and Togo **(Vuylsteke, 1988; Shirley, 1983)**. Indeed, **Aylen (1987)** argues that "A programme of privatisation in a developing country is really a programme for reform". Finally, as noted above, governments in DCs have found it increasingly difficult to implement privatisation, and that its potential gains are by no means assured. Indeed, we are by no means alone in advocating internal reform under public ownership. For example, **Kirkpatrick (1988)** argues that "If the prospects for widespread privatisation in DCs are more limited than the rhetoric would suggest, then internal restructuring of public sector organisation and management are likely to make a more significant, if less newsworthy, contribution to improving public enterprise performance in DCs". Similarly, **Coburn and Wortzel (1986)** state that "On balance, privatisation - however desirable - may not offer the long-awaited solution to the problems of state-owned enterprises, particularly in the developing world where the problem is most acute, and where privatisation is most urgently needed . Therefore, while pursuing privatisation, governments and international development policy makers are encouraged not to lose sight of the possibilities for reforming state-owned enterprises". On the same lines, **Wortzel and Wortzel (1989), Hemming and Mansoor (1988),** made a persuasive argument that "privatisation is not the only answer".

Model 14.1
Performance Determinant Factors.[(1)]



[(1)]This model is developed from the literature , particularly Ayub and Hegstad (1986), Coburn and Wortzel (1986), Shirley (1983, 1989).

For these reasons, therefore, it could be asserted that PE reform is another viable option for improving PE performance. In what follows, we shall discuss the above theoretical approach proposed to improve performance in the interim.

14.3.1 Competition

The available evidence clearly indicates that, competition - local or foreign, actual or potential - is a key determinant of enterprise performance, public or private. Competition enhances performance by exerting pressure on management to control costs, allocate resources more efficiently, innovate, seek new markets, and respond to consumer needs. Thus, if the principal aim is to improve performance, it is essential to promote competition, regardless of the ownership structure **(Van De Walle, 1989: Wortzel and Wortzel, 1989; Ayub and Hegstad, 1986; Shirley, 1989; Kay and Thompson, 1986)**.

There are a number of ways to increase competition. One, through deregulation (i.e removal of statutory entry barriers), or restructuring large holding companies into smaller, competitive units. However, it must be repeated that, if the size of the privatised entities was left intact, deregulation is unlikely to be sufficient to foster competition. Likewise, the technical and financial advantages of the former public monopoly would give the private monopoly considerable market powers to deter entry or to make life difficult for the new rivals **(Yarrow, 1986; Bishop and Kay, 1989)**. In DCs, however PEs are normally concentrated in the manufacturing sector, where there is a wide room to increase competition **(Heald, 1990)**. Indeed, even in the case of "natural monopolies", it was suggested that competition could be created through franchising or contracting-out. That is to allow private firms to use the public assets and supply the market through bidding. Contestable markets is yet another way to foster competition, regardless of the number of firms in the market. As we saw in chapter 3, the Contestable Market Theory suggests that if there are no entry and exit barriers, existing firm(s) would be subject to "hit and run" by a transient, who could enter the market, earn a profit, and if need arises collect the gains and depart costlessly. Thus, in areas that are likely to satisfy the contestability conditions, such as road and air transport, this would provide a feasible alternative to foster competition.

A second alternative is to encourage PEs to seek export opportunities, which could generate significant efficiency gains. For example, **Shirley (1983)** pointed out that, by exposing "Hindustan Machine Tools" in India to a small amount of international competition (8 percent of sales), has contributed to the company's "dynamism and professionalism". similarly, **Ayub and Hegstad (1986)** found that, three of the best seven performing industrial PEs in Zambia are exporters, while none of the loss-making PEs are exporters. A third alternative is to encourage import competition through trade liberalisation. A major pitfall of this approach, however, is to promote trade liberalisation policies without preparing PEs to operate in a competitive market, by clarifying objectives, improving management selection, rewards, and autonomy. In the end, it must be stressed that, all these measures to increase competition must be supported by a competent body to ensure real competition, such as the Mergers and Monopolis Commission in the UK.

14.3.2 The Business Environment

The above measures to expose enterprises, public or private, to a competitive environment would do little to enhance efficiency, if the political, economic, and legal environment for doing business is unstable and inconducive. Therefore, a competitive environment must be supported by sweeping reforms in the political, legal and macroeconomic environment. Indeed, the Sudanese experience demonstrated that the major impediments to PE reform were the widespread distortions in the broader environment. The point is that, in a distorted business environment, no amount of competition would enhance efficiency.

14.3.3 Organisational factors

A: Objectives

As noted earlier, PEs were often assigned vague and conflicting objectives, partly due to the presence of social goals, and partly due to the numerous lines of communication (i.e plurality of owners resulting in conflicting messages being sent to PEs). As a result, performance evaluation became a protracted business, losses were attributed to social goals, and internal inefficiencies concealed. Therefore, the state needs to assess carefully other alternatives of achieving its social goals, such as providing incentives for private firms to develop rural areas. Alternatively, PEs should be allowed to operate on strict commercial basis once they were established. As **Jones (1982)** argues "where the investment decisions were made on social grounds, the modes of operations need not".

Thus, the first step in PE reform would be formulate clear, unambiguous set of objectives. A starting point in this direction is probably the performance contracts applied in France, Morocco, Senegal and Tunisia **(Shirley, 1989; Nellis, 1988)**. Performance contracts are "negotiated agreements" between the state and PEs, which specify the rights and responsibilities of both parties **(Nellis, 1988)**. They have the advantages of clarifying objectives, increasing both side's understanding of the strength and weakness of the other, and identifying the costs of attaining the goals. Their main disadvantages are that, the negotiation process is complex and time-consuming, requires skills and reliable information, and the state might not honour its "non-interference" commitment **(Shirley, 1989)**.

B: Financial Autonomy

A second organisational factor that is critical for improving the performance of PEs, is the delegation of more powers to PE managers to raise capital from the capital market. As noted earlier, PEs normally have no autonomy over all financing decisions, unable to raise prices to reflect market conditions, or to lay-off redundant staff so as to minimise costs. Nevertheless, PE managers often complain about the lack of finance, though the cheap public funding often reduces the pressure on management to use this scarce resource in an efficient manner. Therefore, by withdrawing public funding and exposing PEs to the disciplines of the capital market, might enforce greater efficiency. However, before that, massive financial restructuring would be necessary, so as to enable PEs to borrow from the open market. Moreover, in order to expose PEs to the disciplines of the capital market, a sound reporting system that generates reliable and timely information must be developed. As **Ayub and Hegstad (1986)** point out, a sound financial reporting system would help both the market and the government to evaluate the enterprises. Indeed, it is essential even for internal management to perform their planning, controlling and decision making functions.

The point is that, PEs could be exposed to the capital market disciplines, including bankruptcy and takeover, in the same sense as their private counterparts. If there are social objectives assigned to PEs, the cost of such tasks should be carefully assessed, and paid for by the government.

C: Performance Evaluation System

Another critical prerequisite for PE reform is the development of an appropriate performance evaluation mechanism, to assess whether the PE is meeting its targets. Although no satisfactory model is readily available, we believe a starting point in this direction is the performance evaluation systems developed in Pakistan and South Korea. As noted earlier, a critical prerequisite for an effective evaluation scheme is a comprehensive information system, skilled staff and a competent overseeing agency, a set of clear objectives, and political will and commitment to operate the system. Nevertheless, it must be stressed that, the task of devising and implementing an effective control system for PEs is probably the most daunting and protracted business (see below).

D: Managerial Autonomy

A final organisational variable that determines performance is the degree of managerial autonomy over operating decisions. In order to operate on sound commercial basis, PE managers should have full discretion to choose the appropriate strategies to achieve the enterprise objectives, and to influence all operating decisions for that purpose. **Ayub and Hegstad (1986)** distinguish three roles for private enterprises: the ownership role performed by the shareholders and involves formulating broad goals, hiring and firing of board members and approving the annual accounts; the strategic role performed by the board of directors and involves setting strategic plans, monitoring performance and appointing senior management; and the operating role, which is performed by senior management, and involves operating the enterprise in accordance with the stated plans. Under public ownership, however, such a distinction often exists in theory, but is seldom adhered to. The fact is that, due to the multiplicity of objectives, lack of information flows and plurality of principals, government intervention in operating decisions is unduly excessive, while strategic guidance is lax **(Ghai, 1985; Wortzel and Wortzel, 1989)**. As a result, PE managers are often obliged to seek approval for routine operating decisions, which is ill-suited for commercial enterprises operating in a dynamic environment. The point is that, PEs are subject to various environmental threats and opportunities, and hence the standardised rules and regulations of the civil service are likely to hamper their operating criteria. PEs need to respond differently from other public sector units so as to cope successfully with their dynamic, turbulent environment, both internal and external.

In a bid to satisfy these requirements, different countries have devised various organisational forms, such as the holding companies. The rationale is that. the holding company could act as a buffer against undue intervention, assists in pooling scarce managerial talents, provides effective coordination, and leads to benefits of scale, in terms of purchasing, marketing, and finance. Experience shows that, the degree of centralisation of such organisational arrangements varies from the highly decentralised structures as in Sweden and Norway, to the highly centralised structures as in Ghana and Zambia **(Ayub and Hegstad, 1986)**. As a result, there is no conclusive evidence regarding the efficiency of this organizational form **(Shirley, 1983; Ayub and Hegstad, 1986)**.

Nevertheless, the Swedish experience demonstrates that, a solution could be found by placing governments at arm's length, which is the essence of the public corporation theory as developed in the UK. "The attractiveness of the theory", **Ghai (1985)** argues "is that it appears to minimise political control, avoids partisan uses of economic power, and promises little disruption of the operating norms and methods of the industrial and commercial worlds". If there were any deficiencies, **Heald (1985)** notes might have been due to implementation rather than design. Clearly, a government that can not withhold interfering in PEs is likely to do the same for private enterprises.

Nonetheless, it must be repeated that, the desire to resolve the management and control problems of PEs has never been accomplished in a satisfactory manner. Indeed, it provided the strongest case for the full privatisation of enterprises operating in a competitive environment, on the grounds that "competition is the best regulator" **(Rees, 1986)**. Indeed, the threat of privatisation might be sufficient to discipline the management and work force, create a new organisation culture, and hence enforce greater efficiency. As noted earlier, however, it is not all clear how would privatisation resolve the control problems of industries with considerable market powers or joint ventures. Indeed, in these cases, it was argued that privatisation leaves "a trail of unanswered questiones" **(Steel, 1984)**. The lack of information and technical expertise, on the other hand, would make regulation at best difficult, indeed might favour public ownership **(Van De Walle, 1989).**

14.3.4 Managerial Styles

"What public enterprise demands are all the qualities, such as administrative flair, energy, readiness to accept responsibility, and knowledge of the principles of business organisation that private enterprise requires, plus something else".

(Hanson, 1965)

Although the "something else" has never been clearly defined, the quality of management (i.e education, experience, pay, tenure and attitudes towards the bureaucracy) is a key determinant of performance. As **Nellis and Kikeri (1989)** argue "Profitable performance will be due to competent, hard-working managers, using their resources in a shrewd manner, capable of resisting production reducing or cost-increasing demands of the government". The point is that, management engenders zeal and confidence, lead by example, maintain morale and direction for the rest of the staff, and set the organisation culture.

The available evidence, however, indicates that the quality of management varies widely across countries. In Brazil, for example, PEs were able to recruit competent managers, largely because the state had granted PEs greater operational autonomy, and had excluded PEs from the rigid civil service pay rules **(Trebat, 1983)**. In most African countries, however, PE managers are closer in their attitudes to the bureaucrats than to entrepreneurs **(World Development Report, 1988). Ayub and Hegstad (1986)** attribute these variations to the low pay, high turnover rates among senior management, lack of incentives, the tight bureaucratic controls, and the severe shortages of qualified managers.

These deficiencies, arguably could be rectified through internal reforms. For example, the selection of PE managers could be based on qualifications rather than political acceptance as is often the case, and allowed to operate independently in a competitive environment. They could be recruited on specific terms of reference, and specific term of office, which is vital for the success of the enterprise. For example, the success of India's Hindustan Machine Tools, Ethiopian Telecom Authority, and Tanzania's Electricity supply company, were attributed, in part, to the continuity of senior management **(Shirley, 1983)**. PE mangers could be paid competitive salaries. Although higher salaries might encourage political appointment, we believe, just as with privatisation, political will is a critical prerequisite for the success of PE reform. Also, management contracts might provide a feasible solution to the management - related problems, while emphasising managerial training in the interim.

In summary, this is a simplified integrated theoretical approach to improve the performance of PEs in the interim or on a permanent basis. However, it must be emphasised that, unless the government is willing to adopt the whole model with vigour, no significant efficiency gains are likely to be realised. That is, half-way solutions of adopting parts and dropping others is likely to do more harm than good. Indeed, the early PE reform efforts in the Sudan have failed to improve productivity and financial performance solely because they were implemented in an unsustained and incomplete fashion (see chapters 10 and 11). **Heald (1990)** claims that "Policy design is a crucially important stage of the process of either public enterprise reform or of privatisation". Although policy design is certainly important, the Sudanese experience showed that the failure of the reform effort was attributed to implementation deficiencies rather than faulty design, due to lack of technical expertise and political will. As **Van De Walle (1989)** argues "States in the developing world are increasingly hampered by the budget cuts which austerity has imposed in recent years, but they have always been characterised by the inadequate managerial capacity".

In the end, it must be stressed that, we are not in a way suggesting that denationalisation should be avoided, but rather that its implementation is facing a difficult path, and its potential benefits are uncertain. As **Kirkpatrick (1988)** argues "... the significance of privatisation as a policy option for LDCs has been exaggerated. Denationalisation is likely to be difficult to achieve, its potential benefits often appear to be limited, and its adoption may involve significant political costs". Equally, we are not claiming that PE reform is easy, but is possible and there are sufficient examples to demonstrate this assertion.

14.4 Implications for other DCs

From the findings of this research, a number of policy issues could be deduced, which might be of help to policy makers in other DCs. First, the Sudanese experience indicates that both PE reform and privatisation have been treated in the isolation, rather than part of a broader programme of reform designed to shift to a market economy. As a result, the outcome of the reform effort has been disappointing, and there is no reason to suggest that the benefits of privatisation would materialise. As we argued all along, privatisation is not an end in itself. Its a means to improve efficiency, which depends on factors in the broader political, economic, and legal environment for doing business. Therefore, emphasis should be on creating a sound business environment, with or without ownership transfer. Second, the Sudanese authorities have proposed to privatise a wide range of PEs over just a three-year period, in a context where the capital market is rudimentary, lack of technical expertise is a severe constraint, the business environment is highly distorted, and without adequate preparations (e.g sorting out the actual number of PEs, their financial position or the size of the work force). However, experience shows that hurried privatisation should be avoided, and adequate, time-consuming preparations are inevitable **(Heald, 1990)**.

Third, the timing of offering PEs for sale would require careful planning, so as to reduce the pressure on the small and efficient capital markets in DCs. Moreover, the granting of costly concessions to attract buyers, in particular high protection from competition, should be avoided, simply because they contradict the very basic idea of the privatisation policy. As **Heald (1990)** argues "The relevance of privatisation lies in the promotion of competition and divestiture of enterprises in the industrial sectors which can be made competitive, not in the invitation of large-scale privatisations which raise complex monopoly and regulatory problems". Fourth, experience shows that, in most cases, transparency and wider consultations with the parties involved have been sacrificed for the seek of speeding up the implementation process. This is a critical deficiency, especially in private sales under a one party system, typically found in most African countries, because the chances for irregularities are greatly increased. Therefore, this approach should be avoided, because if the privatised firms failed in the market place, the state might be forced to mount a rescue operation, and hence the vicious circle continues. The challenge, therefore, is to make the privatisation process as open as possible, and at all stages **(Shirley, 1988)**. Finally, due to various political, economic and technical factors, wholesale privatisation like those in the UK are simply irrelevant to DCs, and should be avoided.

In the end, it is certainly true that governments in DCs have found it extremely difficult to implement privatisation, and that its potential gains are by no means assured. But, the policy is increasingly spreading worldwide. Indeed, in most cases, the emphasis has now shifted from "why privatisation" to "how privatisation". Nevertheless, it must be repeated that, its a long term process that requires careful planning, time-consuming preparations, political will, and the support of a sound business environment, all before embarking upon its implementation.

Appendics and References

Appendix 1

Public Enterprises in Sudan

Summary Sheet.[a/]

Total Number of PEs : 191

Wholly State-owned Enterprises : 158

Joint ventures : 33

(a) State-Owned Enterprises			(b) Joint Ventures	
Sector	Individual PEs	Subsidiaries	Individual Enterprises	Subsidiaries
Industry	41	4	4	-
Agriculture	21	13	4	3
Commerce	22	-	1	-
Tourism	15	3	-	-
Transport and Communications	14	-	-	-
Energy and Mining				
Finance	9	-	3	-
Others	15	-	5	12
	3	-	-	-
Total	138	20	18	15

[a/] There is a large number of enterprises under the Military Economic Board, on which no information is available. In addition, there are 19 non-operating PEs.

Appendix 1-A

List of Public Enterprises

in The Sudan

	Enterprise	Sector	Legal Form: Company (1925) Corporation (1976)
	A: Wholly State-Owned Enterprise		
1	Abu Naama Kenaf Factory	Industry	1976
2	Aroma Cardboard Factory	Industry	1976
3	Arts and Letters Publishing Company	Industry	1925
4	Assalaya Sugar Company	Industry	1925
5	Babanousa Milk Factory	Industry	1976
6	Blue Nile Packing Press	Industry	1976
7	Blue Nile Printing Press	Industry	1976
8	Central Region Printing Press	Industry	1976
9	Edeweh Weaving Mill	Industry	1925
10	El deweim Textile Factory	Industry	1925
11	El Guneid Sugar Company	Industry	1925
12	Fine Spinning Mill	Industry	1925
13	Friendship Ready Made Fabric	Industry	1925
14	Gezira Tannery	Industry	1925
15	Government Printing Press	Industry	1976
16	Haj Abdalla Spinning Mill	Industry	1925
17	Hasaheisa Textile Company	Industry	1925
18	Kadolgi Weaving Mill	Industry	1925
19	Karima Fruit and Vegetable Canning	Industry	1925
20	Kassala Onion Dehydration Factory	Industry	1976
21	Khartoum Central Foundary	Industry	1976
22	Khartoum Tannery	Industry	1925
23	Kosti Weaving Mill	Industry	1925
24	Kirikab Sweet Factory	Industry	1925
25	Mangala Spinning Mill	Industry	1976
26	Maspio Cement Company	Industry	1925
27	New Halfa Sugar Company	Industry	1925
28	Nile Cement Company	Industry	1925
29	Nyala Tannery	Industry	1925
30	Nyala Textile Mill	Industry	1925
31	Port Sudan Spinning Mill	Industry	1976

32	Public Spinning and Weaving Company	Industry	1925
33	Plastic and Ceramic Corporation	Industry	1976
34	Rea Sweet Factory	Industry	1925
35	Sennar Sugar Company	Industry	1925
36	Shendi Weaving Mill	Industry	1925
37	Sata Company (Shoes)	Industry	1925
38	Sudan-Ren Fertilizer Company	Industry	1925
39	White Nile Tannery	Industry	1925
40	Wau Vegetable Canning Factory	Industry	1976
41	Public Leather Industry and Trading	Industry	1925
42	Agricultural Research Corporation	Agriculture	1976
43	Alkadro Slaughter House	Agriculture	1976
44	Animal Products Corporation	Agriculture	1976
	(i) Fishery Equipment Project		-
	(ii) Khartoum Agricultural Project		-
	(iii)Poultry Production Project		-
	(iv) Suba Agricultural Project		-
45	Blue Nile Agricultural Corporation	Agriculture	1976
46	Crop Protection Company Limited	Agriculture	1925
47	Delta Al Gash Agricultural Corporation	Agriculture	1976
48	Earthmoving Branch Corporation	Agriculture	1976
49	El Suki Agricultural Corporation	Agriculture	1976
50	Gezira Scheme	Agriculture	1976
51	Nuba Mountain Agricultural Corporation	Agriculture	1976
52	Mechanized Farming Corporation	Agriculture	1976
	(i) Damazin Mechanized Farming		-
	(ii) Damazin Ginning Factory		-
	(iii) Delta Toker Ginning Factory		-
	(iv) El Rank Mechanized Farming		-
	(v) Fishery Branch Corporation		-
	(vi) Gazram State Farm		-
	(vii) Habila State Farm		-
	(Viii) Samsam State Farm		-
	(ix) Sudan-Minex Gold Mining		-
53	New Halfa Agricultural Corporation	Agriculture	1976
54	Northern Agricultural Corporation	Agriculture	1976
55	Public Corporation for Irrigation Works	Agriculture	1976
56	Rahad Agricultural Scheme	Agriculture	1976
57	Toker Agricultural Corporation	Agriculture	1976

58	White Nile Agricultural Corporation	Agriculture	1976
59	Khartoum Dairy Production Company	Agriculture	1925
60	Livestock and Meat Marketing Corporation	Agriculture	1976
61	Anzara Agricultural and Industrial Complex	Agriculture	1976
62	African Housing Company	Commerce	1925
63	Al-Sharg Development Company	Commerce	1925
64	Central Distribution House	Commerce	1976
65	Cotton Public Corporation	Commerce	1925
66	Duty Free Shops Corporation	Commerce	1976
67	Equatoria Trading Corporation	Commerce	1976
68	Exhibitions and Fairs Corporation	Commerce	1976
69	Gezira Trade and Services Company	Commerce	1925
70	Gum Arabic Company	Commerce	1925
71	Kordufan Development and Trading	Commerce	1925
72	National Development and Trade Company	Commerce	1925
73	National Estate Company	Commerce	1925
74	Nile Import and Trading Company	Commerce	1925
75	Northern Darfur Trading Company	Commerce	1925
76	State Corporation for Cinema	Commerce	1976
77	Sudan Building Materials Corporation	Commerce	1976
78	Sudan Cotton Company	Commerce	1925
79	Sudan Oilseed Company	Commerce	1925
80	Sugar Trading Corporation	Commerce	1976
81	Sudanese Company for Building and Construction	Commerce	1925
82	Juba Trading Company	Commerce	1925
83	Sudan News Agency	Commerce	1976
84	Arkawit Resort	Hotels and Tourism	1976
85	Atbara Resthouse	Hotels and Tourism	1976
86	Friendship Hall Corporation	Hotels and Tourism	1976
87	Friendship Palace Hotel	Hotels and Tourism	1976
88	Green Village Hotel	Hotels and Tourism	1976
89	Juba Hotel	Hotels and Tourism	1976
90	Khartoum Airport Resturant	Hotels and Tourism	1976
91	Kosti Resthouse	Hotels and Tourism	1976

92	Morgan Family Park	Hotels and Tourism	1976
93	Nile Tourism Corporation	Hotels and Tourism	1976
94	Red Sea Hotel	Hotels and Tourism	1976
95	Sudan Hotel	Hotels and Tourism	1976
96	Sudanese International Tourist Company	Hotels and Tourism	1976
97	Tourism and Hotels Corporation	Hotels and Tourism	1976
	(i) Grand Hotel		
	(ii) Ice and Lemonade Factory		
	(iii) Supplies and Catering		
98	Wau Resthouse	Hotels and Tourism	1976
99	Betro Transport Company	Transport	1976
100	Capital Transport Corporation	Transport	1976
101	Civil Aviation Authority	Transport	1976
102	Livestock Roads Corporation	Transport	1976
103	River Nile Shipping Company	Transport	1925
104	Seaports Corporation	Transport	1976
105	Shikan Transport Company	Transport	1925
106	Sudan Airways Company	Transport	1925
107	Sudan Shipping Lines	Transport	1925
108	Sudan Railways Corporation	Transport	1976
109	Sudan River Transport Corporation	Transport	1976
110	Wad El Hadi Truck Unit	Transport	1976
111	Post and Telegraph Corporation	Transport	1976
112	Telecommunication Corporation	Transport	1976
113	Agricultural Bank	Finance	1925
114	Bank of Sudan	Finance	1925
115	Bank of Khartoum	Finance	1925
116	Estate Bank	Finance	1925
117	El Nelein Bank	Finance	1925
118	Industrial Bank	Finance	1925
119	National Export and Import Bank	Finance	1925
120	National Reinsurance Company	Finance	1925
121	Regional Insurance Company	Finance	1925
122	Sudanese Commercial Bank	Finance	1925

123	Sudanese Development Corporation	Finance	1925
124	Sudanese Saving Bank	Finance	1925
125	Sudanese Investment Company	Finance	1925
126	Unity Bank	Finance	1925
127	Angesena Hills Mining Corporation	Energy	1976
128	National Electricity Corporation	Energy	1976
129	National Water Corporation	Energy	1976
130	Petroleum Public Corporation	Energy	1976
131	Red Sea Development Corporation	Energy	1976
132	Sudan Mint Company	Energy	1925
133	Sudanese Mining Corporation	Energy	1976
134	Development of Amatong Corporation	Miscellaneous	1976
135	Western Savanna Corporation	Miscellaneous	1976
136	Commission for Relief	Miscellaneous	1976
137	National Council for Research	Miscellaneous	1976
	B: Joint Ventures		
138	African Drilling Company	Agriculture	1925
139	Afro-Arab Groundwater Company	Agriculture	1925
140	Amarat and Sudan Investment Company	Finance	1925
	(i) Amarat and Central Region Company		
	(ii)Amarat and Eastern Region Company		
	(iii)Amarat and Khartoum Company		
	(iv) Amarat and Gezira Company		
	(v) Amarat and Sudan Company for Air Transport		
141	Abu Dhabi and Sudan Investment Company	Finance	1925
142	National Bank for Development	Finance	1925
143	Arab Mining Company	Mining	1925
144	Arab Vegetable Oil Company	Industry	1925
145	Islamic Cooperative Development Bank	Finance	1925
146	Kenana Sugar Company	Industry	1925
147	National Cigarettes Company	Commerce	1925
148	Port Sudan Refinery	Energy	1925
149	Rainbow Factories	Industry	1925
150	Red Sea Tannery	Industry	1925
151	Saudi-Sudan Corporation for Utilization of Red Sea Resources	Mining	1925
152	Sudan-Arab Company	Agriculture	1925
153	Sudan-Arab Authority for Agriculture	Agriculture	1925

	(i) Sudanese-Arabian Poultary		
	(ii) Sudanese-Arabian Fruit and Vegetable Company		
	(iii) Sudanese-Arabian Forage Company		
154	Sudanese-Egyptian Company	Finance	1925
	(i) Sudan-Egypt Fishing Company		
	(ii) Sudan-Egypt Agricultural Integration Company		
	(iii) Sudan-Egypt Mining Company		
155	Sudanese-Kuwaiti Investment Company	Finance	1925
	(i) Sudanese-Kuwaiti Hotel		
	(ii) Sudanese-Kuwaiti Company for Animal Production		
	(iii) Sudanese-Kuwaiti Company for Roads		
	(iv) Sudanese-Kuwaiti Company for Building		1925
	C: Liquidated Enterprises		
	Ahlia Cotton Company	Commerce	
	Al-Aktan Trading Company	Commerce	
	Al Ayam Printing House	Commerce	
	Al Sahafa Printing House	Commerce	
	Aybe National Corporation	Industry	
	Blue Nile Brewery	Industry	
	Port Sudan Cotton Company	Industry	
	Sugar Public Corporation	Industry	
	Food Public Corporation	Industry	
	Watania Distillery Company	Industry	
	White Nile Brewery	Industry	

Appendix 2

Sugar Rehabilitation Project

Summary of Agreement

The Sugar rehabilitation agreement between the Government of Sudan (GoS) and the International Development Association (IDA) signed in 1983, envisaged the following

(I) The GoS would complete formal establishment of the four estates as independent companies.

(II) GoS and the sugar companies will follow procurement procedures for goods and services prescribed for the project, and hire technical services in accordance with IDA guidelines.

(III) GoS and the sugar companies would recruit firms to provide Management Assistance and Training Services by October, 31, 1984. Such recruitment will be on the basis of competitive selection from a list of pre-qualified firms having qualifications and experience acceptable to IDA.

(IV) The Sudan Sugar Board will be established, and an Executive Director and Secretary with experience and qualifications satisfactory to IDA will be appointed prior to Board presentation.

(V) GoS will transfer ownership of assets used to operate pump stations and major canals from the Ministry of Irrigation to the sugar companies no later than July, 1, 1985.

(VI) GoS will ensure that the sugar companies have access to essential imported recurrent inputs, including sufficient supplies of fuel to operate the factories, field equipment and the electrical generators. (GoS clarified that while these inputs are normally procured with foreign exchange made available by the Bank of Sudan and/or foreign aid, there is no prohibition on companies incorporated under the 1925 Companies Act which would restrict them from obtaining foreign exchange from other legal foreign exchange sources).

(VII) Each of the companies will furnish initial balance sheets based on principles acceptable to IDA no later than March, 31, 1985.

(VIII) The four sugar companies will provide unaudited financial statements within six months of the close of each project year, and audited financial statements and an independent audit report to IDA within nine months of the close of each fiscal year.

(IX) GoS will arrange for a review of the performance of each company every year by an independent management consultant, and hold an exchange of views with IDA no later than September, 30 each year on remedial measures proposed by each consultant.

(X) GoS, in cooperation with the sugar companies, will conduct jointly with IDA, a mid-term review of the project no later than December, 31, 1986.

(XI) The companies will be permitted to market their production directly, subject to Government allocation and pricing procedures, and will receive the full producer price for their production.

(XII) GoS will:

(a) use the principle of import parity pricing for determining the producer price for sugar on the basis of a six-year historical cost moving average (adjusted for international inflation) of the daily international sugar price. The import parity price would be calculated using an exchange rate which reflects the rates applicable to the recurrent imported inputs to the sugar industry in the previous year.

(b) adjust this price taking into account the cost of production of an efficient producer, and the financial viability of the sugar companies, bearing in mind the excise duties on sugar.

(c) announce such producer prices not later than October, 1 each year, starting in 1985.

(XIII) The sugar companies will not incur debt if such debt shall result in:

(a) the debt:equity ratio for that company rising above 1:1, or

(b) the companies net revenues becoming less than 1.5 times the maximum debt-service requirement in any succeeding year.

(XIV) GoS and Guneid Sugar Company will ensure that an individual account system at Guneid, on the basis acceptable to IDA, is introduced by June, 30, 1985.

Appendix 3

Public Enterprise and Economic Management
Project
The Public Enterprise Component
Work Plan

First Year

(1) Establish pre-qualification short list of consultants and equipment suppliers (May-July, 1987).

(2) Preparation of tender documents and requests for proposals (May-July, 1987).

(3) Advertise for tenders, send requests for proposals (September, 1987).

(4) Assign additional 3 full-time CBPE staff (September, 1987).

(5) Project launch workshop, preparation of Action Plans (October, 1987).

(6) Begin preparation of instructions to PEs Re: closing accounts and audits (October, 1987).

(7) Selection of first-year short-term consultants (November, 1987).

(8) Selection of consulting firms for diagnostic studies (10 PEs) (November, 1987).

(9) Finalization of Action Plans (November, 1987).

(10) Appointment of committee of experts to review existing legislation/regulations regarding PEs (December, 1987).

(11) Prepare initial financial plans for the 10 PEs (December, 1987).

(12) Appoint a task force for clearing intra-governmental accounts (work to be completed by no later than December, 1989).

(13) Begin diagnostic study 1 (Tokar Agricultural Corporation) January, 1988.

(14) Appointment of working group to prepare terms of reference for PE managers, boards, shareholders, sectoral ministries, CBPE, etc. Work to be completed by May, 31, 1988.

(15) Complete diagnostic study 1 (Tokar) and begin diagnostic study 2 (March, 1988).

(16) Begin inventory of all PEs. (to be completed by September, 1988).

(17) Complete diagnostic study 2 (telecom), and begin diagnostic study 3 (Animal Products), (May, 1988).

(18) Establish "Public Enterprise Rationalization Fund", (May, 1988).

(19) Complete diagnostic study 3 (Animal Products) and start diagnostic study 4 (Duty Free Shops), (July, 1988).

(20) Decision regarding recommendation of diagnostic study 1 (Tokar), (July, 1988).

Second Year

(1) Divest Rea and Kirikab Sweet Factories.

(2) Design in-service training programmes for key government institutions and selected enterprises.

(3) Complete a comprehensive inventory of all PEs by type, sector, share of government equity and basic financial information.

(4) Submit results of detailed diagnostic studies of pilot enterprises for decision.

(5) Establish a monitoring system for the pilot PEs.

Third Year

(1) Prepare implementation action plans on the basis of decisions concerning retention, privatisation and liquidation.

(2) Introduce new financial and management information systems within the PE sector as developed for the pilot enterprise.

(3) Promulgate and implement new legislation.

(4) Clear all intra-Government accounts.

(5) Introduce objectives, targets, and incentives for the pilot PEs.

(6) Commence the process of privatizing appropriate enterprises according to the results of the action plans.

(7) Begin implementation of rehabilitation plans for the pilot enterprises to be retained under public ownership.

Fourth Year

(1) Expand application of new procedures and systems linking the individual enterprises to the relevant government entities as developed for the pilot PEs to the sector as a whole.

(2) Establish an effective enterprise monitoring function within the ministries of agriculture and industry.

Appendix 4
Sudan: Exchange Rate History

Date	Action
Pre-June, 1978	Official exchange rate maintained at £S 0.35/$, rate which prevailed since independence in 1956.
June, 8, 1978	Official rate devalued to £S 0.40/$.
March, 27, 1979	Rate for workers remittances raised to £S 0.67/$.
September, 16, 1979	Worker remittance rate and nil-value import system abolished, and the official rate set at £S 0.50/$. Parallel rate of £S 0.90/$ established for selected imports and exports.
September, 21, 1980	All exports except cotton and all imports except pharmaceuticals and "government imports (sugar, petroleum, wheat and agricultural inputs) moved form the official rate to the parallel rate.
June, 8, 1981	Cotton exports and imported inputs moved to parallel rate.
July, 11, 1981	Street market legalized and exchange dealers licensed. Free market rate of about £S 1.05/$.
September, 15, 1981	Official and parallel rates unified at £S 0.90/$. Three-fourth of non-cotton export proceeds, all cotton proceeds and "government imports" valued at the unified rate, remainder at free rate of about £S 1.14/$.
June, 30, 1982	Maximum buying and selling rates of £S 1.13/$ and £S 1.15/$ set by decree for free market, which shrinks sharply. Black market begins to emerge at previous free rate of about £S 1.40/$.
August, 25, 1982	Maximum rates on free market rate removed.
November, 15, 1982	Official rate devalued to £S 1.30/$. Free market rate set at £S 1.75/$.
February, 27, 1983	Four commercial banks (later extended to 11) licensed to deal at free market rate.
May, 18, 1983	Licenses of foreign exchange dealers revoked, as were those of five commercial banks who raised rate to £S 2.05/$.
June, 7, 1983	Licenses of commercial banks reinstated, and five dealers licensed.
March, 6, 1984	All exports except cotton and gum arabic were valued at the commercial rate.
February, 12, 1985	Official rate devalued to £S 2.5/$, and free market rate set at £S 3.4/$. Private foreign exchange dealing revoked.
August, 12, 1985	Commercial banks allowed to set their free rate in consultation with the Bank of Sudan. Officially, the Sudanese pound was begged to a basket of currencies. Basket was abandoned in October as the pound appreciated due to a fall in the dollar and change in government.
February, 25, 1986	Committee of 7 bankers established to allocate the available foreign exchange. All private foreign exchange dealings were to be channeled to the committee.
August, 7, 1986	Free market rate set at £S 4.0/$.
August, 16, 1987	Official rate devalued to £S 4.5/$.
October, 9, 1988	Free market to be operated by commercial banks established at a rate of £S 11.1/$, later raised to £S 12.2/$.
July, 15, 1989	Possession and trading in foreign exchange prohibited and a death sentence imposed.

* At present the rates are as follows: official rate £S 4.5/$, free market rate £S 12.2/$, and the black market rate is £S 60.0/$.

Appendix 5

Interviewing Guidelines

Micro level

(1) Managing Directors

(1) General information regarding the objectives of the enterprise, legal form, organisation structure, age, size, sources of finance, and the central government.

(2) Boards of directors and managing directors: terms of reference (in theory and practice), terms of office, selection criteria, remuneration, composition of board members, qualifications, and frequency of meetings.

(3) From your point of view, what are the main problems of your organisation?

(4) Is there any legislation specifying the relationship between the enterprise and the central government? To whom do you report?
- Do you face any external interference in the internal operations of your entity? If yes, from whom?
- At the enterprise level, are there specific terms of reference for the functional managers?

(5) How frequent do you meet with the functional and regional managers? Are there any agenda prepared and distributed before these meetings?

(6) Is the enterprise able to utilise its designed capacity? If not, why?

(7) How do you rate the financial performance of the enterprise (profitable, loss making or just breaking even)?

(8) The flow of financial and operational data is it adequate and reliable? If not, why? How does that effect your decision making, planning and controlling?

(9) Is there any performance evaluation system? If yes, please tell me about it?

(10) For the public corporations that were converted into companies: What were the deficiencies of the corporate form?

- What were the objectives of the conversion?
- Were there any studies prior to the legal restructuring?
- Were there any deficiencies in implementation? If yes, what are these?
- What were the effects on: objectives; management selection, autonomy and rewards; salary scales; relationship with the central government, productivity and financial performance?
- Were there any labour shedding following the legal restructuring? If yes, what was the union response?

(11) Do you face any competition (domestic/foreign)? Are you able to complete effectively? If not, why?

(12) How do you look to the future of the enterprise: should it remain under public ownership or should it be privatised? Why?

- If it is to remain public, what sort of reforms (if any) should be introduced?

(13) Long ago the government announced that it itends to introduce private managers to operate PEs. What happened?

- Do you think private managers will do better? Why?

(2) Financial Managers

(1) What are the main functions of the financial manager in this enterprise?

- Are there any specific terms of reference?

(2) Could you please tell me about your staff, viz: number, qualifications, tenure, and salary scales?

(3) Are salaries in line with competitors? Is there any over/understaffing situation?

- ratio of salaries to sales?
- ratio of salaries to operating expenses?

(4) Are your accounts up-to-date? Are they audited on time? If not, why? What are the implications on decision making?

(5) Is the financial management system adequate, in terms of cash flow management, collection of receivables, cost control, and monitoring of performance?

- What are the main reasons for the deficiencies (if any)?

(6) How significant is the volume of accounts receivables? What is the policy for collection? How does that affect your working capital position? What is the ratio of accounts receivables to current assets?

(7) How are annual budgets prepared? Who approves the budget? Are they approved as proposed? If not, how do you finance the difference?

- How do you find the attitudes of the officials at the Ministry of Finance?
- What sort of problems you normally face when you ask for more funds? How long does it take to be approved?
- Are there any other sources of finance? if yes, what are these?

(8) How sound is the financial position of the enterprise?

- Do you have any costing systems?
- Do you make any exports? If yes, are you allowed to retain part of your foreign earnings?

- How do you obtain your inputs (local and imported)?

(9) How frequent do you report to management? How do you find the attitudes of management towards accounting data?

(10) For the public corporations that were converted into companies: What were the effects on:

- the accounting systems?
- the financial performance and productivity?
- budget preparation and approval?
- frequency of reporting?
- lines of communications with the central government and within the company?

(3) Personnel Managers

(1) Do you have the optimum number of staff, over-staffing or under-staffing?

(2) What are the criteria for the recruitment of key posts?

- Could you please tell me about the duration of senior management during the last decade?
- Could you please tell me about the promotion and training policies?
- What are the effects of the civil service rules on the recruitment and promotion policies?
- Are promotion and rewards (if any) related to productivity and financial performance?
- What are the procedures to discipline inefficient staff? Can you lay off surplus staff?

(3) How does the change of governments affect your staffing position?

(4) How are worker's disputes normally resolved (I mean between management and

unions, between unions and government or else?

(5) How do you look to the future of the enterprise: remain public or go private? Why?

(6) For the corporations that were transformed into companies: What were the effects of change on the organisation structure, relations with government, number of staff, salary scales, and management autonomy?

Macro level:

(1) Chairman; Supreme Investment Authority (ministerial status).

(1) Could you please tell me about the investment licensing procedures, the time it takes for projects to be approved, the criteria for approval, and the incentives offered?

(2) Could you please tell me about the various reform efforts undertaken (objectives, cost, implementation process and difficulties encountered)?

(3) What were the measures taken to implement privatisation (preparing PEs, management, finance, price setting, etc)?
- Are there any rules for price setting and selection of buyers? Would foreigners be allowed to participate?

(4) How do you plan to finance privatisation costs? Are there any measures to alleviate its social costs?
-Are there any measures to mobilise private resources?
-Are there any reforms in the financial sector?

(5) Had the policy been debated with the parties involved?

(2) Ministry of Finance and Sectoral Ministries

Here, the following officials were interviewed:

(i) Director General, Public Corporation Administration, MFEP.

(ii) Director for Budget, MFEP.

(iii) Directors of Public Corporation Bureaus: Ministries of Industry, Transport, and Agriculture.

(iv) Directors of Import and Exports Units, MCCS.

(a) General Information:

(1) Evolution of PEs, legal form, objectives of PEs, total number of PEs, financial position, government equity in each, and number of staff.

(2) The organisational arrangement linking various government agencies and PEs (theory and practice).

(3) The main problems of PEs and the measures taken to reform PEs.

(b) Finance:

(4) What are main sources of finance for PEs?

(5) Who approves their budgets ?

(6) Are PEs required to pay dividends, taxes, or both? Are they able to pay these in practice? If not, why?

(7) From a recent Auditor General Report (1986/87), I noted that a large part of PE's current assets are tied up in accounts receivables from other PEs and government units, why is that? What are the implications for working capital?

(8) Is there any central unit to monitor and analyse these financial transactions? What was done, or should be done, to clear these accounts?

(9) What are the procedures for PE's borrowing both at home and abroad? Are foreign loans guaranteed by the state?

-What are the procedures for foreign exchange allocation, provision of subsidies and financial support?

(10) For PEs that normally receive seasonal credits, such as agriculture, were they able to repay these loans on timely fashion? If not, what is the government policy for collection?

(c) Management and Control

(11) Although the Public Corporation Act, 1976, proposed that a Supreme Council for Public Corporations shall be established, I came to know that the council has never been established. Why was that? In the absence of the Council who performs its tasks?

(12) - I noted from a recent Auditor General Report that a large number of PEs were not audited for years, why was that?

- How adequate is the flow of information between PEs and the central government?
- Are there any measures to bring the accounts of PEs up-to-date?
- What are the implications of this state of affairs on control, pricing and financing?

(13) How are prices determined? A number of PE managers I have spoken to claim that prices normally do not cover the production costs, is that true? Why?

(14) Is there any central unit within the government with a comprehensive knowledge of the number of PEs, their financial position, size of staff, or government equity?

- Do you have a record of the actual performance of PEs?, If not, why?

(15) What are the criteria for the selection of chief executives and board members?

- Who appoint them?
- Who determines their salaries, their term of office?

(16) How do you evaluate the performance of PEs (i.e. how do you determine success or failure of PEs)?

- Is there any system of rewards and punishment?
- Is there any relationship between increases in salaries or bonus payments to productivity?
- How are workers disputes normally resolved?
- How autonomous are PE managers in relation to pricing, recruitment, purchasing, investment, financing and salary determination?

(17) For PEs that perform social goals, are they compensated for carrying out such tasks? Is that considered in performance evaluation?

(18) What were the main objectives of legal conversion to companies?
What were the effects of legal restructuring on: objectives, size of staff, salaries, relations with the government, accounting systems and management practices, productivity and financial performance?

(19) As far as I know, the previous government had formed a number of committees to review all the laws governing PEs, what happened in this respect?

(2) The Auditor General

(1) What is the role of the Auditor General? What are the problems you face in carrying out that role?

(2) Does the chamber has sufficient resources (both human and financial) to audit all PEs on time? Are you able to recruit qualified staff? If not, why?

(3) From your experience, what are the major problems of PEs?

(4) Are there any arrears in accounts? If yes, why? What was done to clear the backlog?

(5) How do you rate the financial performance of PEs?

- Are there any PEs that are performing profitably?

If any, what are they? What makes these PEs profitable?

(6) How effective is ministerial control?

- From your experience, were PEs able to recruit competent financial managers? If not, why?

(7) During the last decade the currency was devalued many times and the country experienced hyper inflation rates, was there any revaluation of assets to reflect current market values? If not, why?

(8) Are the financial management systems of PEs adequate? If not, why?

- Are there any reported cases of corruption?

- What was done to strengthen the internal control systems in those PEs?

- What happened for the corrupt personnel?

(9) Are there any accounting standards in the country?

- Are there any reforms in the accounting practices?

- Is there any body to govern the accounting practices in the Sudan?

(10) Do you have a record of inter-departmental accounts? If yes, how significant are they? How do they affect the working capital of PEs?

- Is there any central unit to monitor these accounts?

- In your 1983/84 report you stated that the capital accounts of most PEs is under-estated due to accounting errors. Has that been corrected? If not, why?

(11) Do you normally obtain the budgets to compare them with actual results? If not, why?

(12) How do you look to the future of PEs: should they remain public or go private? why?

(13) Do you have a record of Sudan foreign debts? If yes, how was it spent? If not, why?

(3) Bank of Sudan: Director of Public Corporations Department.

(1) Could you please give me an idea about PE's debts to the Bank of Sudan (size and procedures for credit extension to PEs)? What is the bank's policy for collecting these debts?

- Does the central bank extend credits to the newly created companies? To the private sector?

(2) Do you have a record of foreign loans extended to PEs? If yes, could you tell me how they were spent?

(3) Where do PEs and private firms obtain foreign exchange for their imported input needs?

(4) Could you please give me an idea of the interest and foreign exchange rates movements during the last decade?

(5) Debt: Equity swaps were suggested in 1987 as a means of reducing the country's foreign debts. Is there any action taken? If yes, please tell me about the size of the transaction, and how it was carried out?

(6) From your experience, what are the main problems of PEs?

How do you look to their future: should they remain public or go private? Why?

(4) The Taxation Department (MFEP).

- Are public and private enterprises usually able to provide your department with up-to-date audited accounts? If not, why? How do you assess taxes?
- Are there any differences in accounting practices between public and private firms? If yes, how does that affect your work?
- From your experience, could you please give me an idea about accounting practices in Sudan? Are there any standardised acconting methods ? Is there any incentives offered to private investors?
- Could you please give me a copy of the cuurent tax rates?

(5) Private enterprises

For the purpose of identifying the main problems of private enterprises in the Sudan, we also visited two private firms: International Tyre Manufacturing and Distributing Company (ITMD) and the Sudan-Arab Oil and Soap Company. In both companies, the following officials were interviewed: The Managing Directors, Fiancial and Personnel Managers.

(1) What are the main constraints on private firms in the Sudan (both internal and external).

(2) How do you rate the financial performance of your company?

(5) Do you have any idle capacity? If yes, why?

(6) How do you set your selling prices? Your salary scales?

(7) How do you obtain your input needs (domestic and imported iputs?
- Is there any government interference in investment, purchases and recruitment?

(8) What are the procedures for dismissing surplus and inefficient staff?
- Are there any problems in labour legislation you want to tell me about?

(9) Do you face any competition (domestic or foreign)? Are you able to compete effectively? Do you make any exports? If yes, are you allowed to retain your foreign earnings?

(10) Do you think your products are reaching consumers at the stated prices? If not, why?

(11) How do you find the general business environment in the Sudan (in terms of entry, exit, pricing, financing, infrastructure and input supply)?

(12) As a businessman, what are the main problems of PEs? In what ways do they differ from the problems facing private firms?

(13) Do you think privatisation will solve these problems? Why?

In addition, the following officials were also interviewed:

(1) The chairman of the Industrial Production Corporation (1971-77).
(2) The chairman of the rehabilitation units for agriculture, sugar and textile.
(3) The director of the Efficiency Improvement Unit, Khartoum.
(4) The director of the Industrial Research and Consultancy Centre.
(5) The director of the Industrial Costing and Pricing Unit, Ministry of Industry.

(6) The Commissioner for labour.

(7) The director of the Public Corporation for Sugar Trading.

(8) The chairman of the Foreign Exchange Allocation Committee, Bank of Sudan.

(9) A number of ex-managers of various PEs, as well as a former Minister of Industry who devised the legal reform of the Industrial sector in the early 1980s.

(10) The World Bank, Khartoum and Washington.

All these interviews were conducted in Arabic and later translated into English, except those for the World Bank officials in Washington.

Appendix 6
Number of World Bank Projects With Divestiture Components (Approved as of June, 1989)

Region	Country	SALs[a]	SECALs[b]	TALs[c]	PELs[d]	PSD[e]	Total
AFRICA	Benin	1			1		2
	Burundi	2					2
	Cameroon	1					1
	CAR	2		1			3
	Congo	1			1		2
	Gaboon	1					1
	Gambia	2				1	3
	Ghana	2	1		1		4
	Guinea	2		1			3
	G. Bissau	2					2
	Madagascar		2	1			3
	Malawi	1			2		3
	Mali				1		1
	Mauritania				2		2
	Niger	1					1
	Sao Tome	1		1			2
	Senegal	2		1			3
	Sudan			2			2
	Togo	3				1	4
	Uganda		1	1	1		3
	Zaire	1					1
	Sub-total	25	4	8	9	2	48
LAC[f]	Chile	1		1			2
	Costa Rica	1					1
	Hinduras	1					1
	Jamaica	3		1	1		5
	Mexico				1		1
	Panama	2		1			3
	Uruguay	2					2
	Venzuala	1					1
	Sub-total	11	0	3	2	0	16

EMENA[g]	Morocco				1		1
	Tunisia				1		1
	Turkey	1					1
	Sub-total	1	0	0	2	0	3
Asia	Indonesia					1	1
	Nepal	1					1
	Philippines		1		1		2
	Sub-total	1	1	0	1	1	4
	Grand Total	38	5	11	16	3	71

a/ SALs: Structural Adjustment Loans.

b/ SECALs: Sectoral Adjustment Loans.

c/ TALs: Technical Adjustment Loans.

d/ PELs: Public Enterprise Loans.

e/ PSD: Private Sector Development.

f/ LAC: Latin American Countries.

g/ EMENA: Europe, Middle East, and North Africa.

Source: Kikeri, S. (1990), "Bank Lending for Divestiture", World Bank Working Paper No. 338, Washington D.C.

References

Abbas, E.(1986), *"The Structure of the Textile Industry in the Sudan",* Paper presented to a National Economic Conference held in Khartoum, (March).

Abdel Rahman, I.H. and M.S. Abu Ali (1989), *"Role of Public and Private Sectors with special Reference to Privatisation: The Case of Egypt",* in **S. El Naggar,** (ed), *"Privatisation and Structural Adjustment in the Arab Countries",* International Monetary Fund, Washington, D.C.

Abranches, S.H. (1986), *"State Enterprises and Modes of Privatisation: A Critical View Based on Brazilian Examples"* in **Glade, W.** (ed), *"State Shrinking: A Comparative Inquiry into Privatisation",* Institute of Latin American Studies, University of Texas, Austin.

Abu Affan, B. (1986), *"Industrialisation Policy in the Sudan",* Khartoum University Press, Khartoum.

Acharya, S.N. (1979), *"Incentives for Resource Allocation: A Case Study of the Sudan",* World Bank Staff Working Paper, No.57.

Aharoni, Y. (1981a), *"Performance Evaluation of State-Owned Enterprises: A Process Perspective",* Management Science, Vol.27, No.11.

Aharoni, Y. (1981b), *"Managerial Discretion",* in **Vernon, R. and Y. Aharoni** (eds), *"State-Owned Enterprises in the Western Economies",* New York, St. Martin Press.

Alchian, A. (1965), *"Some Economics of Property Rights",* Politico, Vol.30.

Anani, J. and R. Khalaf (1989), *"Privatisation in Jordon",* in **S. El Naggar,** (ed), *"Privatisation and Structural Adjustment in the Arab Countries",* International Monetary Fund, Washington, D.C.

Aricanli, A.T. and D. Rodrick (1990), *"An Overview of Turkey's Experience With Economic Liberalisation and Structural Adjustment",* World Development, Vol. 18, No. 10.

Aylen, J. (1987), *"Privatisation in Developing Countries",* Lloyds Bank Review, No.63.

Ayub, M. and S. Hegstad (1986), *"Public Industrial Enterprises: Determinants of Performance",* Industry and Finance Series, Vol.17, World Bank, Washington, D.C.

Bailey, E. (1986), *"Price and Productivity Change Following Deregulation: The US Experience",* The Economic Journal, Vol. 96.

Baumol, W.; J. Banzar; and R.D. Willig (1982), *"Contestable markets and the Theory of Industry Structure",* Harcourt Brace Jovanovich, New York.

Baumol, W. and R.D. Willig (1986), *"Contestability: Development Since the Book",* Oxford Economic Papers (Supplement).

Bauer, P. and B. Yamey (1984), *"Black Africa: the Living Legacy of Dying Colonialism",* Encounter, Vol. 62.

Beesley, M. and S. Littlechild (1983), *"Privatisation: Policies, Problems and Priorities",* Lloyds Bank Review.

Berner, M., J. Brown, and D. Canter (1985), *"The Research Interview: Uses and Approaches",* Harcourt Brace Jovanovich, New York.

Berg, E. (1983), *"Changing the Public-Private Mix: A Survey of Some Recent Experiences in less Developed Countries",* International Monetary Fund, Washington, D.C.

Berg, E. (1987), *"Privatisation: Developing A Pragmatic Approach",* Economic Impact, No.57.

Berg, E. and M. Shirley (1987), *"Divestiture in Developing Countries"* World Bank Discussion Paper No.11, World Bank, Washington, DC.

Bergsman, J. and W. Edisis (1988), *"Debt: Equity Swaps and Foreign Investment in Latin America",* World Bank Discussion Paper, No.2.

Bery, S.K. (1990), *"Economic Policy Reform in Developing Countries: The Role and Management of Political Factors",* World Developement, Vol 18, No.8.

Bienen, H. and J. Waterbury (1989), *"The Political Economy of Privatisation in Developing Countries",* World Development, Vol. 17, No. 5.

Bishop, M. and J. Kay (1989), *"Privatisation in the UK: Lessons From Experience",* World Development, Vol.17, No. 5.

Blackwell, M. and S. Nocera (1988), *"The Impact of Debt to Equity Conversion",* Finance and Dvelopment, Vol. 25.

Blejer, M. and M. Khan (1984), *"Private Investment in Developing Countries",* Finance and Development, Vol. 21.

Boneo, H. (1986), *"Privatisation: Ideology and Praxis",* in **W. Glade** (ed), *"State Shrinking: A Comparative Inquiry into Privatisation",* Institute of latin American Studies, University of Texas, Austin.

Boneo, H. (1987), *"The Politics of Control Systems",* Public Enterprise (Ljubljana), Vol. 7, No. 2.

Bonner, B. (1987), *"Wiltzing with a Dictator",* Times Books, New York.

Borensztein, E. (1989), *"The Effects of External Debt on Investment",* Finance and Development, Vol. 26.

Bouaouaja, M. (1989), *"Privatisation in Tunisia: Objectives and Limits",* in **S. El Naggar** (ed), *"Privatisation and Structural Adjustment in the Arab Countries",* International Monetary Fund, Washington, D.C.

Bradley, K. and A. Gelb (1985), *"Employee Buy-Out of Troubled Companies",* Harvard Business Review, September/October.

Briones, L.M.(1986), *"The Role of Government-Owned or Controlled Corporations in Development",* Public Enterprise (Ljubljana), Vol. 6.

Brittan, S. (1984), *"The Politics and Economics of Privatisation",* Political Quarterly, April/June.

Brock, W. (1983), *"Contestable Markets and the Theory of Industry Structure: A Review Article",* Journal of Political Economy, Vol. 91.

Bromwick, M. (1976), *"Economics of Capital Budgeting"* Penguin Books.

Burgess, R. (ed), (1985), *"Studies in Qualitative Methodology",* JAI Press.

Callaghy, T.M. and E.J. Wilson (1988), *"Africa: Policy, Reality or Ritual ?",* in **R.**

Vernon (ed), *The Promise of Privatisation"*, Council on Foreign Relations, Washington, D.C.

Campbell, D.T. (1985), *"Degree of Freedom and the Case Study"*, Comparative Political Studies, Vol. 8.

Candoy-Sekse, R. (1988), *"Techniques of Privatisation of State-Owned Enterprises, Vol.3: Inventory of Country Experience"*, World Bank Technical Paper No. 90.

Choski, A.M. (1979), *"State Intervention in the Industrialisation of Developing Countries"*, World Bank Staff Paper, No. 341.

Choucri, N. (1985), *"A Study of the Sudanese Nationals Abroad"*, MIT Press.

Coburn, J.F. and L.M. Wortzel (1986), *"The Problems of Public Enterprises in Developing Countries: Is Privatisation A Solution ?"*, in **W. Glade** (ed), *"State Shrinking: A Comparative Inquiry Into Privatisation"*, Institute of Latin American Studies, University of Texas, Austin.

Commander, S. and T. Killick (1988), *"Privatisation in Developing Countries: A Survey of Issues"*, in **P. Cook and C. Kirkpatrick** (eds), *"Privatisation in less Developed Countries"*, Wheatsheaf Books, Brighton.

Coombes, D. (1971) *"State Enterprises: Business or Politics?"*, Allen and Irwin.

Cowan, L.G. (1990), *"Privatisation in the less Developed World"*, Braeger.

Dabani, B. (1988), *"The World Bank and the IMF: Rolling back the State or Backing Its Role"*, in **R. Vernon** (ed), *"The Promise of Privatisation"*, Council On Foreign Relations, Washington, D.C.

Davis, E.H. (1984), *"Express Coaching Since 1980: Liberalisation in Practice"*, Fiscal Studies, Vol. 5, No.1.

Davies, D.D. (1971), *"The Efficiency of Public Versus Private Firms in a Competitive Environment: The Case of Australia's Two Airlines"*, Journal of Law and Economics.

Demsetz, H. (1968), *"Why Regulate Utilities"*, Journal of Law and Economics, Vol. 11.

Diesing, P. (1973), *"Patterns of Discovery in Social Sciences"*, Routledge and Keegan, London.

Domberger, S. (1986), *"Economic Regulation through Franchise Contracts",* in **Kay et al** (eds), *"Privatisation and Regulation: The UK Experience",* Clarendon Press, Oxford.

Domberger, S. and J. Piggott (1986), *"Privatisation Policies and Public Enterprises: A Survey",* The Economic Record, Vol. 62.

Donnison, D.V. (1984), *"The Progressive Potential of Privatisation",* in **J. le Grand and R. Robinson,** *"Privatisation and the Welfare State",* Allen and Irwin.

Dooley, M. and D. Mathieson (1987), *"Financial Liberalisation in Developing Countries",* Finance and Development, Vol. 24.

Edwards, S. (1987), *"Sequencing Economic Liberalisation in Developing Countries",* Finance and Development, Vol. 24.

Ekern, S. and R. Wilson (1974), *"On the Theory of the Firm in an Economy With Incomplete Markets",* Bell Journal of Economics, Vol. 5.

Elkan, W. (1988), *"Entrepreneur and Entrepreneurship in Africa",* Finance and Development, Vol. 25.

Escobar, K.J.(1988), *"Venezuela: Letting in the Market",* in **R. Vernon** (ed), *"The Promise of Privatisation",* Council on Foreign Relations, Washington D.C.

Fernandes, P. (1982), *"Control Systems For Public Enterprises In Developing Countries",* International Centre for Public Enterprises in Developing Countries, Ljubljana, Yogoslavia.

Fernandes, P. (1983), *"An Approach to Evaluating the Performance of Industrial Enterprises",* Industry and Development, No. 7.

Financial Times, *"Survey on Privatisation",* Financial Times, September, 16, 1987.

Finsinger, J., Hammond, M. and J. Trapp (1985), *"A Comparative Study of the Insurance Markets in the UK and the Federal Republic of Germany",* IFS Report Series, Institute of Fiscal Studies, London.

Floyd, R., C. Gary, and R. Short (eds) (1984), *"Public Enterpirses in Mixed Economics:*

Some Macroeconomic Aspects", International Monetary Fund, Washington, D.C.

Foremann-Peck, J. and D. Manning (1988), *"How Well is BT Performing: An International Comparison of Telecommunications Total Factor Productivity"*, Department of Economics, University of Newcastle.

Forsyth, P.J. (1984), *"Airlines and Airports: Privatisation, Competition, and Regulation"*, Fiscal Studies, Vol.5.

Forsyth, P.J. and R.D. Hill and C.D. Trengove (1986), *"Measuring Airlines Efficiency"*, Fiscal Studies, Vol. 7, No. 1.

Frischtak, C. (1989), *"Competition As A Tool of Less Developed Countries Industrial Policy"*, Finance and Development, Vol. 26.

Gad Karim, H. (1988), *"Sudanese Government Attitudes Towards Foreign Investment: Theory and Practice"*, in **A.G. Ali** (ed), *"Sudan Economy in Disarray"*, Khartoum University Press.

Galal, A. (1990a), *"Public Enterprise Reform: A Challenge for the World Bank"*, World Bank Working Paper No. 407, World Bank, Washington, D.C.

Galal, A. (1990b), *"Does Divestiture Matter ?"*, World Bank Working Paper No. 475, World Bank, Washington D.C.

Galal el Din, M. A. (1985), *"Remittances and their Effects on Return Migrants"*, Development Studies and Research Centre, University of Khartoum.

Galenson, A. (1984), *"Investment Incentives for Industry: Some Guidelines for Developing Countries"*, World Bank Staff Working Paper, No. 669, Washington D.C.

Garner, M.R. (1988), *"Has Public Enterprises Failed ?"*, in **Ramanadham, V.** (ed), *"Privatisation in the UK"*, Routledge, London.

Ghai, Y. (1985), *"The State and the Market in the Management of Public Enterprises in Africa"*, Public Enterprise (Ljubljana), Vol. 5, No.1.

Gillis, M. (1980), *"The Role of State Enterprises in Economic Development"*, Social Research, No. 47.

Gilman, M. (1990), *"Heading for Currency Convertibility"*, Finance and Development, Vol. 27, No.3.

Glade, W. (1989), *"Privatisation in Rent-Seeking Societies"*, World Development Vol. 17, No.5.

Glade, W. (ed), (1986), *"State Shrinking: A Comparative Inquiry into Privatisation"*, Institute of Latin American Studies, University of Texas, Austin.

Glaser, B. and A. Strauss, (1967), *"The Discovery of Grounded Theory: Strategies for Qualitative Research"*, Chicago, Aldine.

Greene, J. (1989), *"The Debt Problem of Sub-Saharan Africa"*, Finance and Development, Vol.26.

Greene, J. and D. Villanueva, (1990), *"Determinants of Private Investment in Less Developed Countries"*, Finance and Development, Vol 27.

Gulhati, R. (1987), *"Recent Economic Reforms in Africa: A Preliminary Political Economy Perspective"*, EDI Policy Seminar Report Series, World Bank, Washington, D.C.

Gulhati, R. (1988), *"The Political Economy of Reform in Sub-Saharan Africa"*, Economic Development Institute of the World Bank, Washington, D.C.

Gulhati, R. (1990), *"Who Makes Economic Policy in Africa and How?"* World Development, Vol. 18, No.8.

Gupta, M. (1982), *"Productivity Performance of the Public and Private Sectors in India: A Case Study of the Fertiliser Industry"*, Indian Economic Review, Vol. 17.

Haggard, S. (1988), *"The Philippines: Picking up After Marcos"*, in **Vernon, R.** (ed), *"The Promise of Privatisation"* Council on Foreign Relations, Washington D.C.

Hanke, S.H., (ed) (1987), *"Privatisation and Development"*, San Fransisco International Centre for Economic Growth.

Hanson, A. H. (1965), *"Public Enterprises and Economic Development"*, London: Routledge and Kegan.

Harris, J. (1988), *"Some Lessons from the UK Privatisation Programme"*, Unpublished

Paper, University of Bath.

Hartmann, A. and S. Nawab, (1985), *"Evaluating Public Manufacturing Enterprises in Pakistan",* Finance and Development, Vol. 22.

Hassan, A.E. (1982), *"Styles of Management in the Sudan",* Khartoum University Press.

Hastings, S. and H. Levie, (1983), *"Privatisation ?"* Nottingham, Spokesman.

Hawkins, H.J. (1991), *"Understanding the Failure of IMF Reform: The Zambian Case",* World Development, Vol. 19, No. 7.

Heald, D. (1980), *"The Economic and Financial Control of UK Nationalised Industries",* Economic Journal, Vol. 90.

Heald, D. (1984), *"Privatisation: Analysing its Appeal and Limitations"* , Fiscal Studies, Vol. 5, No. 1.

Heald, D. (1985), *"Will the Privatisation of Public Enterprises Solve the Problem of Control?"* , Public Administration, Vol.63, No.10.

Heald, D. (1988), *"The UK Privatisation and its Political Context",* West European Politics, Vol. 11.

Heald, D. (1990), *"The Relevance of Privatisation to Developing Countries",* Public Administration and Development, Vol. 10.

Heald, D. and D. Steel. (1982) *"Privatisating Public Enterprises: An Analysis of the Government's Case",* Political Economy Quarterly, Vol.23.

Hegstad, S. and I. Newport, (1987), *"Management Contracts: Main Features and Design Issues",* World Bank Technical Working Paper No. 65, World Bank, Washington, D.C.

Helleiner, G. (1987), *"Stabilisation, Adjustment, and the Poor",* World Development Vol. 15, No. 12.

Heller, P. and C. Schiller, (1989), *"The Fiscal Impact of Privatisation With Some Examples from the Arab Countries",* in **S. El Naggar,** (ed), *"Privatisation and Structural Adjustment in the Arab Countries",* International Monetary Fund, Washington, D.C.

Heller, P. and A. Tait, (1983), *"Government Employment and Pay: Some International Comparisons",* International Monetary Fund Occasional Paper 24, Washington, D.C.

Helm, D. (1987), *"RPI-X and the Newly Privatised Industries: A Deceptively Simple Regulatory Rule",* Public Money.

Hemming, R. and A. Mansoor, (1988a), *"Privatisation and Public Enterprises",* International Monetary Fund Occasional Paper 56, Washington, D.C.

Hemming, R. and A. Mansoor (1988b), *"Is Privatisation the Answer?",* Finance and Development, Vol. 25, No. 2.

Hope, K.R. (1982), *"Improving Public Enterprise Management in Developing Countries",* Journal of General Management, No. 743.

Howard, K. and J.A. Sharp (1983), *"The Management of a Student Research Project",* Gower Publishing Company.

Huang, Y. and P. Nicholas (1987), *"The Social Costs of Adjustment",* Finance and Development, Vol. 24.

Hussein, M.N.(1988), *"Movement in the Foreign Exchange Rates in the Sudan",* in A.A.G. Ali (ed), *"Sudanese Economy in Disarray",* Khartoum University Press.

Idris, A.E. (1986), *"Sugar Industry and Its Role in Economic Development",* Paper Presented to a National Economic Conference held in Khartoum, March.

Jaggi, B.L. (1973), *"Accounting Studies in Developing Countries: An Assessment",*International Journal of Accounting, Vol. 9, No.1.

Jenkins, G. and M. Lahouel (1983), *"Evaluation of Performance of Public Enterprises: Criteria and Policies",* Industry and Development, No.7.

Jones, L.P. (1982), *"Public Enterprises in Less Developed Countries",* Cambridge University Press, Cambridge.

Jones, S. (1991), *"The Road to Privatisation",* Finance and Development, Vol. 28, No.1.

Khan, R.L. and P.A. Carrell (1957), *"The Dynamics of Interviewing: Theory, Techniques, and Cases",* Wiley, New York.

Kapil, K. (1989), *"Sudan: Parastatal Sector",* World Bank Working Paper, No. 5, World Bank, Washington, D.C.

Kapstein, E. (1988), *"Brazil: Continued State Dominance",* in **R. Vernon** (ed), *"The Promise of Privatisation",* Council on Foreign Relations, Washington, D.C.

Kay, J., C. Mayer, and D. Thompson (eds), (1986), *"Privatisation and Regulation: The UK Experience",* Clarendon Press, Oxford.

Kay, J. (1987), *"The State and the Market: The UK Experience With Privatisation",* New York: Group of 30 Occasional Paper No. 213.

Kay, J. and D. Thompson (1986), *"Privatisation: A Policy in Search of a Rationale",* The Economic Journal, Vol. 96.

Kennedy, M.M. (1976), *"Generalising from Single Case Studies",* Evaluation Quarterly, Vol. 3.

Kerlinger, F.N. (1973), *"Foundations of Behavioral Research",* Holt Rinehart and Winston.

Khandwalla, P. (1981), *" The Performance Determinants of Indian Public Enterprises",* World Bank Discussion Paper No. 72.

Khatrawi, M.F. (1989), *"Privatisation and the Regional Public Joint Ventures in the Gulf Cooperation Council Region",* in **S. El Naggar** (ed). *"Privatisation and Structural Adjustment in the Arab Countries",* International Monetary Fund, Washington, D.C.

Kholi, M. and A. Sood (1987), *"Fostering Enterprise Development",* Finance and Development, Vol. 245.

Kidder, L. (1981), *"Research Methods in Social Relations",* Holt Rinehart and Winston, New York.

Kikeri, S. (1990), *"Bank lending to Divestiture: A Review of Experience",* World Bank Working Paper No. 338, Washington, D.C.

Killick, T. (1983), *"The Role of the Public Sector in the Industrialisation of African Countries",* Industry and Development, Vol. 7, UNIDO.

Kirkpatrick, C. (1986), *"The World Bank's Views On State Owned Enterprises In Less*

Developed Countries: A Critical Comment", Rivista Internazionale di Scienze Economiche e Commeriali, Vol. 33, (English translation).

Kirkpatrick, C. (1988), *"The UK Privatisation Model: Is It Transferable to Developing Countries?"* in **V.V. Ramanadham** (ed), *"Privatisation in the UK"*, Routledge, London.

Kohli, A. (1989), *"Politics of Economic Liberalisation in India"*, World Development, Vol.17, No.3.

Kreacic, V. and P. Marsh (1985), *"Public Enterprises in Developing Countries: Structure, Performance, and Culture"*, International Centre for Public Enterprises in Developing Countries, Ljubljana.

Lal, D., M. Cane, P. Hare, and J. Thompson (1975), *"Appraising Foreign Investment in Developing Countries"*, Heinemann, London.

Lal, D. (1987), *"The Political Economy of Economic Liberalisation "*, World Bank Economic Review, Vol. 1, No.2, Washington, D.C.

Lamb, C. (1989), *"Pakistan Prepares to Embark on the Privatisation Trail "*, Financial Times, July 19, 1989.

Lanyi, A. (1987), *"Issues in Capital Flows to Developing Countries"*, Finance and Development, Vol. 24.

Lawerance, R.P. and W.J. Lorsch (1967), *"Organisation and Environment"*, Homewood, Irwin.

Leading Article, *"Good and Bad Privatisation"*, Financial Times, November 26, 1986, London.

Leeds, R. (1988), *"Turkey: Rhetoric and Reality"*, in **Vernon, R.** (ed), *"The Promise of Privatisation"*, Council on Foreign Relations, Washington, D.C.

Leeds, R. (1989), *"Malaysia: The Genesis of a Privatisation Transaction"*, World Development, Vol. 17, No. 5.

Leibenstein, H. (1966), *"Allocative Efficiency vs X-Efficiency"*, American Economic Review, Vol. 56, No. 3.

Leibenstein, H. (1978), *"General X-Efficiency Theory and Economic Development",* New York: Oxford University Press.

Leonard, D.K. (1987), *"The Political Realities of Africa Management",* World Development Vol. 15, No. 7.

Letwin, O. (1988), *"Privatising the World: A Study of International Privatisation in Theory and Practice",* Cassel, London.

Likiermann, A. (1979), *"Performance Indicators for State Enterprises",* Accountancy, October.

Likiermann, A. (1984), *"The Use of Profitability in Assessing the Performance of Public Enterprises",* in **Ramanadham, V.V.** (ed), *"Public Enterprises in the Developing World",* Croom Helm Ltd.

Lindauer, D.L. (1991), *"Parastatal Pay Policy in Africa",* World Development, Vol. 19, No. 7.

Littlechild, S. (1981), *"Ten Steps to Denationalisation",* Journal of Economic Affairs, Vol. 2.

Littlechild, S. (1983a), *"Deregulation of the UK Telecom: Some Economic Aspects",* The Economic Review, Vol. 1.

Littlechild, S. (1983b), *"Regulation of British Telecommunication Profitability",* Department of Industry, London.

MacAvoy, P.W.; W.T. Stanbury, and G. Yarrow, (1989), *"Privatisation and State-Owned Enterprises",* Kluwer Academic Publishers.

Maccoby, E.E. and N. Maccoby, (1954), *"The Interview: A Tool of Social Science",* in Handbook of Social Psychology, Vol.1, Cambridge University Press.

Madarassy, A. (1990), *"Private Investment Rebounds in Developing Countries",* Finance and Development, Vol. 27, No. 2.

Maddock, N. (1987), *"Privatising Agriculture: Policy Options in Developing Countries",* Food Policy, Vol. 12, No.4.

Mallon, R. (1982), *"Public Enterprise Pricing Policy",* HIID Development Discussion Paper

No. 129.

Manne, H. G. (1965), *" Mergers and the Market for Corporate Control",* Journal of Political Economy, Vol. 73.

Mansoor, A. (1988), *"The Fiscal Impact of Privatisation",* in **P. Cook and C. Kirkpatrick** (eds), *"Privatisation in Less Developed Countries",* Wheatsheaf Books, Brighton.

Marsden, K. and T. Belot (1987), *"Private Enterprise in Africa: Creating A Better Environment",* World Bank Discussion Paper 17, World Bank, Washington, D.C.

Marshall, S. (1986), *"Economic Privatisation: Lessons from the Chilean Experience",* in **W. Glade** (ed), *"State Shrinking: A Comparative Inquiry into Privatisation",* Institute of Latin American Studies, University of Texas, Austin.

Mason, E. and R. Asher (1973), *"The World Bank Since Bretton Woods",* Brookings Institution, Washington, D.C.

Mayer, C. and S. Meadowcroft (1986), *"Selling Public Assets: Techniques and Financial Implications",* Fiscal Studies, Vol. 6.

Millward, R. (1988), *"Measured Sources of Inefficiency in the Performance of Private and Public Enterprises in LDCs",* in **P. Cook and C. Kirkpatrick** (eds), *"Privatisation in Less Developed Countries",* Wheatsheaf Books, Brighton.

Misher, E.G. (1986), *"Research Interviewing: Context and Narrative",* Harvard University Press.

Modawi, A., A. Suleiman and I. Ahmed (1988), *"Population, Employment and Adjustment Programmes",* in **Saghayroun , A. Farah, S.A. Ahmed, and A.H. Kheir** (eds), *"Population and Development in Sudan - The Quest for a National Policy",* Khartoum University Press.

Moe, R. (1987), *"Exploring the Limits of Privatisation",* Public Administration Review, Vol. 147, No. 6.

Molyneux, R. and D. Thompson (1987), *"Nationalised Industries: Still Third Rate ?",* Fiscal Studies, No.8.

Moore, J. (1986a), *"Why Privatise?",* in **J.Kay; C. Mayer and D. Thompson,** (eds), *"Privatisation and Regulation: The UK Experience",* Oxford: Clarendon Press.

Moore, J. (1986b), *"The Success of Privatisation",* in **Kay, J. ; Mayer, C. and Thompson, D.** (eds), *"Privatisation and Regulation: The UK Experience",* Oxford: Clarendon Press.

Musa, K.A. (1987), *"The Role of Management Accounting and Accountants in Some Selected Sudanese Public and Private Enterprises",* Ph.D thesis, University of Bath, UK.

Nankani, H. (1988), *"Techniques of Privatisation of State-Owned Enterprise, Volume II: Selected Country Case Studies",* World Bank Technical Paper No.89, World Bank, Washington, D.C.

Nankani, H. (1990), *"Lessons of Privatisation in Developing Countries",* Finance and Development, Vol. 27, No.1.

Nath, N.C.B. (1986), *"Public Enterprises as an Intervention Mechanism",* Public Enterprise (Ljubljana), Vol.6, No.2.

Nellis, J. (1986), *"Public Enterprises in Sub-Saharan Africa",* World Bank Discussion Paper 11, Washington, D.C.

Nellis, J. (1988), *"Contract Plans and Public Enterprise Performance",* World Bank Working Paper 118, Washington, D.C.

Nellis, J. (1989), *"Public Enterprise Reform in Adjustment Lending",* World Bank Discussion Paper 233, Washington, D.C.

Nellis, J. and Kikeri, S. (1989), *"Public Enterprise Reform, Privatisation and the World Bank",* World Development, Vol. 17, No.5.

Nunberg, B. (1990) *"Public Sector Management: Issues in Structural Adjustment Lending",* World Bank Discussion Paper, No.99.

Nunnenkamp, P. (1986), *"State Enterprises in Developing Countries",* Intereconomics, July / August.

Otley, D.T. (1980), *"The Contingency Theory of Management Accounting: Achievement and Prognosis",* Accounting, Organisation and Society, Vol.5, No.4.

Ozzane, J. (1991), *"The Politics of Famine in the Sudan",* Financial Times, January, 9, 1991.

Park, Y. (1987), *"Evaluating the Performance of Korea's Government - Invested Enterprises",* Finance and Development, Vol.24

Parker, D. (1986), *"Privatisation and State Ownership",* Infrome Ltd.

Patton, M.Q. (1980), *"Qualitative Evaluation Methods",* Beverly Hills, CA: Sage.

Paul, S.(1985), *"Privatisation and the Public Sector",* Finance and Development, Vol.22.

Payne, S.L.(1951), *"The Art of Asking Questions",* Princeton, N.J. Princeton University Press.

Peacock, A. (1984), *"Privatisation in Perspective",* The Three Banks Review.

Perkins, F.C. (1983), *"Technology Choice, Industrialisation, and Development Experiences in Tanzania",* Journal of Development Studies, No.2.

Pescatrice, D.R. and J.M. Trapani (1980), *"The Performance and Objectives of Public and Private Utilities Operating in the United States",* Journal of Public Economics, Vol. 13.

Pfeffermann, G.(1985), *"Over-Valued Exchange Rate and Development",* Finance and Development, Vol. 22.

Pfeffermann, G. (1988), *"Private Business in Developing Countries"* World Bank Discussion Paper, No.1.

Posner, M. (1984), *"Privatisation: The Frontier Between Public and Private",* Policy Studies, Vol. 5.

Pryke, R. (1981), *"The Nationalised Industries: Policies and Performance Since 1968",* Oxford, Martin Robertson.

Pryke, R. (1986), *"The Comparative Performance of Public and Private Enterprises",* in **J. Kay; C. Mayer; and D. Thompson,** (eds) *"Privatisation and Regulation: The UK Experience",* Oxford, Clarendon Press.

Ramamurti, R. (1987), *"Controlling State-Owned Enterprises",* Public Enterprise (Ljubljana), Vol. 7, No. 2.

Ramanadham, V.V. (1986a), *"Privatisation in the African Context",* in **W. Glade** (ed), *"State Shrinking: A Comparative Inquiry into Privatisation",* Institute of Latin American Studies, University of Texas, Austin.

Ramanadham, V.V. (1986b), *"Public Enterprises: Studies in Organisational Structures",* Frank Cass, London.

Ramanadham, V.V. (1988), *"Inferences from the UK Privatisations and the Developing Country Context",* in **Ramanadham, V.V.** (ed), *"Privatisation in the UK",* Routledge, London.

Ramanadham, V.V. (ed), (1984a), *"The Nature of Public Enterprises",* Croom Helm, London.

Ramanadham, V.V. (ed), (1984b), *"Public Enterprises in the Developing World",* Croom Helm, London.

Ramanadham, V.V. (ed), (1988), *"Privatisation in the UK",* Routledge, London.

Rees, R. (1986), *"Is There an Economic Case for Privatisaion?"* Public Money Vol. 5.

Savas, S. (1987), *"Privatisation: A key to Better Government",* Chatham House Publishers.

Shackleton, J.R. (1984), *"Privatisation: The Case Examined",* National Westminster Bank Quarterly Review.

Sharpe, T. (1987), *"Privatisation, Regulation and Competition",* Fiscal Studies, Vol. 5.

Shephard, W. (1984), *"Contentability vs Competition",* American Economic Review, Vol.74.

Shephard, W. (ed) (1978), *"Public Enterprise: Economic Analysis of Theory and Practice",* Lexington Books.

Shihata, I.F. (1988), *"MIGA and Foreign Investment: Origins, Operations, Policies and Basic Documents of the Multilateral Investment Guarantee Agency",* Nijhoff, Boston.

Shilling, J., A. Toft, W. Sung, and W. Edisis (199), *"Debt: Equity Conversion Analysis:*

A Case Study of the Philippines", World Bank Discussion Paper No.76, Washington, D.C.

Shirley, M. (1983), *"Managing State-Owned Enterprises"*, World Bank Staff Working Paper No. 577, Washington, D.C.

Shirley, M. (1988a), *"The Experience With Privatisation"*, Finance and Development, Vol. 25, No. 3.

Shirley, M. (1988b), *"Promoting the Private Sector"*, Finance and Development, Vol. 25, No. 4.

Shirley, M. (1989a), *"Evaluating the Performance of Public Enterprises in Pakistan"*, World Bank Working Paper No. 160, Washington, D.C.

Shirley, M. (1989b), *"Improving Public Enterprise Performance: Lessons from South Korea"*, World Bank Working Paper No. 312, Washington, D.C.

Shirley, M. (1989c), *"The Reform of State-Owned Enterprises: Lessons from the World Bank Lending"*, World Bank: Policy and Research Series, Washington, D.C.

Short, R. (1984), *"The Role of Public Enterprises: An International Statistical Comparison"*, in **Floyd et al** (eds), *"Public Enterprises in Mixed Economies: Some Macroeconomic Aspects"*, International Monetary Fund, Washington, D.C.

Silkenat, J. (1988), *"Guaranteed Recovery of Investment Principal"*, International Financial Law Review.

Singh, A. (1975), *"Takeovers, Economic Natural Selection and the Theory of the Firm: Evidence from the post-war UK Experience"*, Economic Journal, Vol. 85.

Starr, P. (1988), *"The Limits of Privatisation"*, Proceedings of the Academy of Political Science, Vol. 36, No. 3.

Steel, D. (1984), *"Government and the New Hybrids: A Trail of Unanswered Questions"*, Fiscal Studies, Vol. 5, No. 1.

Steel, D. and D. Heald (1984), *"Privatising Public Enterprises: Options and Dilemmas"*, Royal Institute of Public Administration, London.

Sudman, S. and N. Bradburn (1982), *"Asking Questions: A Practical Guide to Questionare*

Design", Jossey-Brass, San Fransisco.

Susungi, N.N. (1988), *"The Caveats of Privatisation as an Instrument of Structural Adjustment in Africa",* Africa Development Bank Research Paper.

Swann, D. (1988), *"The Retreat of the State",* Wheatsheaf Books, Brighton.

The Guardian, *"The Budget",* March 21, 1989, London.

The Guardian, *"Hungary Faces Difficult Path to Privatisation",* January 30, 1990, London.

The Guardian, *"Privatisating Poland",* February 2, 1990, London.

The Independent, *"Water shares go to hefty premiums",* December 13, 1989, London.

Thomas, D. (1985), *"Public Ownership: Can its Supporters Make a Convincing Case?",* Public Money, December.

Thomas, J. and M. Grindle (1990), *"After the Decision: Implementing Policy Reforms in Developing Countries",* World Development, Vol. 18, No. 8.

Tomkins, C. (1985), *"Privatisation Japanese Style: Lessons for the Telecommunications and Railways in the UK",* unpublished paper, University of Bath, UK.

Tomkins, C. (1988b), *"Does the Japanese Public Sector have the British Disease?",* unpublished paper, University of Bath, UK.

Trebat, T. (1983), *"Brazil's State-Owned Enterprises: A Case Study of the State as Entrepreneur",* Cambridge University Press, New York.

Treasury (1961), *"The Financial and Economic Obligations of the Nationalised Industries",* HMSO, London.

Treasury (1967), *"Nationalised Industries: A Review of Economic and Financial Control",* HMSO, London.

Treasury (1978), *"Nationalised Industries",* HMSO, London.

Tyler, W.G. (1979), *"Technical Efficiency in Production in a Developing Country: An Empirical Examination of Brazilian Plastics and Steel Industries",* Oxford Economic Papers Vol. 31.

United States Agency for International Development (1986), *"Implementing A.I.D. Privatisation Objectives",* Washington, D.C.

Van De Walle, N. (1989), *"Privatisation in Developing Countries: A Review of Issues",* World Development, Vol. 17, No. 5.

Veljanovski, C. (1987), *"Selling the State",* Weidenfled and Nicolson, London.

Veljanovski, C. (ed) (1989), *"Privatisation and Competition: A Market Prospectus",* Institute of Economic Affairs, London.

Vernon, R. (ed) (1988), *"The Promise of Privatisation"* Council on Foreign Relations, Washington, D.C.

Vernon, R. and Y. Aharoni (1981), *"State-Owned Enterprises in Western Economies",* St. Martin Press, New York.

Vickers, J. (1985), *"The Economics of Predatory Practices",* Fiscal Studies, Vol. 6.

Vickers,J. and G. Yarrow (1988), *"Privatisation: An Economic Analysis",* MIT Press, London.

Vickers, J. and G. Yarrow (1989), *"Privatisation in Britain",* in **Mac Avoy et al** (eds), *"Privatisation and State-Owned Enterprises",* Kluwer Academic Publishers.

Vuylsteke, C. (1988), *"Techniques of Privatisation of State-Owned Enterprises: Methods and Implementation, Vol.1",* World Bank Technical Paper No. 88.

Walters, A. (1985), *"Privatisation: A Viable Policy Option?"* in Privatisation: Policies, Methods and Procedures, Asian Development Bank.

Walters, A. (1989), *"Liberalisation and Privatisation: An Overview,* in **S. El Naggar** (ed), *"Privatisation and Structural Adjustment in the Arab Countries",* International Monetary Fund, Washington, D.C.

Waterhouse, J.H. and P. Tiessen (1978), *"A Contingency Framework for Management Accounting Systems Research",* Accounting, Organisation and Society, Vol.3.

Wells, L.T. and A.G. Wint (1991), *"The Public-Private Choice: The Case of Marketing A Country to Investors",* World Development, Vol. 19, No. 7.

West Africa (1988), *"Ghana's Divestiture",* June, 27, 1988.

Whitehead, L. (1990), *"Political Explanations of Macroeconomic Mamagement: A Survey",* World Development, Vol. 18, No. 8.

Whyte, W.F. (1984), *"Learning from the Field: A Guide from Experience",* Sage Publications.

Williamson, O. (1975), *"Markets and Hierarchies: Analysis and Antitrust Implications",* The Free Press, New York.

Woodword, J. (1965), *"Industrial Organisation: Theory and Practice",* Oxford: Oxford University Press.

Warwick, D. (1973), *"Comparative Research Methods",* Printice Hall Inc., Englewood Cliffs, NJ.

World Bank (1981), *" Accelerated Development in Sub-Saharan Africa: An Agenda for Action",* World Bank, Washington, D.C.

World Bank, (1983), World Development Report, New York: Oxford University Press.

World Bank, (1987), *"Sudan: Pricing Policies and Structural Balances",* World Bank, Washington, D.C.

World Bank, (1988), World Development Report, New York: Oxford University Press.

Wortzel, H. and Wortzel, L. (1989), *"Privatisation: Not the Only Answer",* World Development, Vol. 17, No. 5.

Yarrow, G. (1986), *"Privatisation in Theory and Practice",* Economic Policy, Vol. 1.

Yarrow, G. (1989), *"Does Ownership Matter?,* in **C. Veljanovski,** (ed), *"Privatisation and Competition: A Market Prospectus",* Institute of Economic Affairs, London.

Yin, R. (1981), *"The Case Study Crisis: Some Answers",* Administrative Science Quarterly, Vol. 26.

Yin, R. (1983), *"The Case Study Research: Design and Methods",* Beverly Hills, CA: Sage.

Yotopoulos, P. (1989), *"The (Rip) Tide of Privatisation: Lessons from Chile",* World Development, Vol. 17, No. 5.

Young, P. (1986), *"Aiding Development",* Adam Smith Institute, London.

Government Reports and Laws

Abu Zeid, O. (1989), "Sugar Production and Prices", Report to the Sugar Project Rehabilitation Committee, Khartoum.

Auditor General Reports: 1970, 1983/84, 1984/85, 1985/86, 1986/87, and 1987/88.

Bank of Sudan Reports from 1984/85 to 1988/89.

Central Committee to Evaluate Public Factories Report, 1970, MFEP, Khartoum.

Industrial Sector Performance Report, 1988/89, Ministry of Industry

Investment Codes: 1956, 1967, 1972 (1974), and 1980.

Public Corporations: Annual Performance Report: 1986/87, and 1987/88, MFEP, Khartoum.

Public Enterprise and Economic Management Project: The Agreement, 1987.

Rea and Kirikab Sweet Factories: Industrial Research and Consultancy Centre Reports, 1980, 1983, 1985, and 1987.

The Budget, 1990/91, MFEP, Khartoum.

The Companies Law, 1925.

The Financial Regulations Act, 1977.

The Individual Relations Act, 1981.

The Industrial Development Corporation Act, 1965.

The Public Corporations Act: 1971 and 1976.

The Socio-economic Development Plans: 1960/61 - 1970/71, 1970/71 - 1976/77, and 1977/78 - 1983/84.

The Nationalisation Act, 1970.

The Sugar Rehabilitation Agreement, 1983, Ministry of Industry, Khartoum.

The Three Year Economic Salvation Plan, 1990/91 - 1993/94, MFEP, Khartoum.

The Bank of Sudan Act.